A Critical Study of the Role of Chinese Banks in Sustainable Development: The Adoption of the Equator Principles

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Declaration

“I, SHIMIN GUO, declare that the PhD thesis entitled ‘A Critical Study of the Role of Chinese Banks in Sustainable Development: The Adoption of the Equator Principles’ is no more than 80,000 words in length. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work”.

Signature: [redacted]

Date: 10 Decemebr 2021

Acknowledgement

The Covid-19 pandemic has brought about unprecedented challenges in continuing regular work, studies and research including my doing this PhD. The completion of this thesis is a demonstration that we can overcome the difficulties and meet the challenges.

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Abstract

Sustainable development has received increasing attention since the global financial crisis in 2008. Banks play a critical and active role in sustainable development mainly because of their intermediary role. Banks are recently under huge pressure from stakeholders for better corporate behaviours and sustainable development. While the last decade has increasingly seen the changing of banks' corporate behaviour towards sustainable development, there is little empirical evidence on the engagement of banks in sustainable development programmes and participation in the Equator Principles (EPs), especially in the context of emerging economies. The EPs are a risk management framework, adopted by major financial institutions in the world, with a view to determining, assessing and managing environmental and social risk in project finance. The EPs are primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making of financial institutions. So far only five non-state-owned banks in China have adopted the EPs.

This study aims to critically identify institutional factors influencing banks' sustainable development and the adoption of the EPs in the case of China where the economy has been increasingly integrated with the global economy. This study has five research objectives, including 1) To understand the role of banks in CSR and sustainable development by reviewing the existing literature. 2) To comprehend the development of the EPs and its significance in promoting sustainability. 3) To appreciate the current state of Chinese banks' sustainable development and adoption of the EPs. 4) To identify institutional factors that influence the decision-making of Chinese banks with regards to the adoption of the EPs and sustainable development. 5) To present some recommendations to China's policymakers and bank managers on the EPs and sustainable development. More specifically, this study sets to study why and how Chinese commercial banks began to address CSR, sustainable development issues in their corporate strategy and how this was influenced by the institutional setting, but few banks adopted the EPs. This study attempts to find out the reasons behind the adoption of the EPs by Chinese banks through case studies and interviews.

The methodology of this research is related to interpretivism with the use of a qualitative approach by employing case studies and interviews for data collection. Specifically, this study employs a qualitative multiple case study design and in-depth interviews, as this allows complex social and business management topics such as CSR, sustainable development and the adoption of the EPs with a focus on banks in sustainable development to be addressed and to grasp the non- or adoption of the EPs and bank sustainability. Field studies with seven banks (i.e., three EPs adopting and four non-adopting banks) employed semi-structured and thematically focused interviews, supported by desk-top studies of related documents and published reports. The study's qualitative design targets subjective perceptions and attributions of the case banks and individuals who have knowledge and experience in the subject studied. Case banks selection was based on the banks' adoption of the EPs in the context of China's commercial banks. The 15 interviewees were from seven Chinese banks. Among the seven banks, three have adopted the EPs (i.e., Industrial Bank Co. Ltd., Jiangsu Bank, and Bank of Huzhou) and four are non-adopting banks. The study has achieved its overall aim and intended research objectives.

A theoretical conclusion from this study is that institutional theory, emphasising legitimacy-granting activities by business organisations, probably offers the best explanation in the context of China's banking sustainable development and the adoption of the EPs. This study highlights the capacity for institutional theory to render an in-depth understanding of the engagement of CSR and sustainable development concepts of Chinese banks associated with the adoption and implementation of the EPs by five non-state-owned banks. Although the fact of requiring the adoption of the EPs could be characterised as a form of coercive power (consisting of external pressures, organisational internal factors such as governance, risk management, seeking learning opportunities, reputation building, resources etc.), recent development in institutional theory help to explore the extent to which the adoption and non-adoption are shaped by the government, banks, customers, the interests of actors involved in the adoption process, and the role of senior managers of banks in promoting the sustainable development and the adoption of the EPs. However, it should be noted that other theoretical perspectives such as stakeholder theory, political economics and culture influence provide useful insights as well and each of them highlights certain aspects of the sustainable development and the EPs (non-)adoption among Chinese banks. Thus, this study suggests that with a view to developing a full understanding of Chinese banks' adoption of the EPs recognising the complementarity of various theoretical perspectives is therefore essential as different environments and social-economic factors influence the adoption and implementation.

The main findings of this study include: 1) Five non-state-owned banks have adopted the EPs, but none of the state-owned banks has adopted the EPs. 2) Chinese banks' sustainable development has been largely guided by the authorities and political attributes involved in CSR should be considered extensively in discussing Chinese banks' CSR and sustainable development. 3) Chinese culture has influenced the behaviours of Chinese banks towards sustainable development. 4) Institutional factors that influence the decision-making of Chinese banks with regards to the adoption of the EPs and sustainable development can be categorised into the external environment, organisational internal environment, resources environment and clients/project borrowers' environment. 5) The adoption of the EPs by Chinese banks has largely been determined by institutional factors. 6) Chinese banks' sustainable development and adoption of the EPs are motivated by political inspirations. 7) The motivations of learning and developing links with financial institutions have driven senior managers of banks to adopt the EPs.

A theoretical conclusion from this study is that institutional theory probably offers the best explanation in the context of China's banking sustainable development and the adoption of EPs. This study highlights the capacity for institutional theory to render an in-depth understanding of the engagement of CSR and sustainable development concepts of Chinese banks associated with the adoption and implementation of the EPs by five non-state-owned banks. However, other theoretical perspectives such as stakeholder theory, political economics and culture influence provide useful insights as well and each of them highlights certain aspects of the sustainable development and the EPs (non-)adoption among Chinese banks. This study has outlined a number of policy and practical implications to banking regulators, management and stakeholders.

Table of Contents

A List of Abbreviations

ABC	Agricultural Bank of China
BOC	Bank of China
BoCom	Bank of Communications
CBIRC	the China Banking and Insurance Regulatory Commission
CBRC	the China Banking Regulatory Commission
CCB	China Construction Bank
CEO	Chief Executive Officer
CIRC	the China Insurance Regulatory Commission
CPC	the Communist Party of China
CSMAR	The China Stock Market & Accounting Research
CSR	Corporate Social Responsibility
CSRC	the China Securities Regulatory Commission
EIRIS	Ethical Investment Research Service
EPs	the Equator Principles
EPFIs	Equator Principles Financial Institutions
ESG	Environmental, Social and Governance
GDP	Gross Domestic Products
ICBC	Industrial and Commercial Bank of China
IFC	the International Finance Corporation
MoF	the Ministry of Finance
PBOC	the People's Bank of China
PPP	the Public-Private Partnership
PSBC	Postal Savings Bank of China
SHSE	the Shanghai Stock Exchange
SMEs	Small- and Medium-sized Enterprises
SOEs	State-owned Enterprises
SZSE	the Shenzhen Stock Exchange
TBL	Triple Bottom Line
WBCSD	The World Business Council for Sustainable Development

Chapter 1 Introduction

1.1 Background

Sustainable development has received increasing attention since the global financial crisis in 2008 (e.g., Chih, Chih, & Chen, 2010; Bahl, 2012; Carnevale, Mazzuca, & Venturini, 2012; Ullah, 2013; Maklan, Knox, & Antonetti, 2014; Rebai, Azaiez, & Saidane, 2016; Carè, 2018; Yip & Bocken, 2018; Buallay, Fadel, Alajmi, & Saudagaran, 2020). Social and environmental concerns in an economy are closely associated with the industrial structure and resource allocation, and economic development relies largely on the banking industry and capital markets. Banks are the main distributors of finance, acting as an intermediate role in an economy (Carè, 2018). Therefore, banks play a critical and active role in addressing social and environmental concerns and promoting the sustainable development of an economy.

The banking industry is an important contributor to sustainable development, through their interaction with other economic sectors and consumers, and employing their financing, investment, and trading activities (Weber, 2005; Verma, 2012; Carè, 2018). This is largely due to the bank intermediary role in the allocation of capital for other sectors of an economy and for industrial expansion through providing project finance and investment. Due to their intermediary role in an economy, banks hold a unique position with regards to sustainable development in the economy (Campiglio, 2016; Carè, 2018). For instance, banks are intermediaries between people with shortages and surpluses of capital. Banking products include savings, lending, project finance, investment, mediation and advice, payments, guarantees, and ownership and trust of real estates. No doubt, this intermediary role is both quantitative and qualitative and involves a variety of stakeholders, requiring to consider various needs and risks. Also, due to banks' efficient credit approval systems, they are well equipped to weigh risks and attach a price to these risks. Therefore, risk management performed by banks plays an important role in economic development (Zadek & Chenghui, 2014) and in facilitating the sustainable development of an economy.

Also, banks can foster sustainability by developing more sustainable products, such as environmental or ethical investment funds (Rozenberg, Vogt-Schilb, & Hallegatte, 2014; Azmi, Mohamad, & Shah, 2020). Therefore, CSR has become a corporate strategy and even a core component of the business objectives of banks.

In recent years, changing public expectations have increasingly induced banks to publicly declare their commitments to integrating a wide variety of social and environmental concerns and objectives into their operations and services, and in some cases to change banks' operational strategies and models. The pressures from external stakeholders on banks for better roles to play in an economy's sustainable developments and stabilising financial markets have increased since the global financial crisis of 2007/08 and the prevailing covid-19 pandemic (Talbot & Ordonez-Ponce, 2020). This is particularly the case for many financial institutions in emerging economies where financial services become a driving force of an economy.

Indeed, banks are under huge pressures from many stakeholders (such as the public and governments) for better corporate behaviours and being a good corporate citizen. In particular, demands for financial institutions to demonstrate they are having a sound governance mechanism and CSR awareness have intensified after a series of bank failures, financial frauds and scandals. Many countries have increased their scrutiny of banks' social licence to operate, resulting in an escalating interest in studying banks' social accountability and CSR performance (Soana, 2011; Nizam, Ng, Dewandaru, Nagayev, & Nkoba, 2019). As a consequence, sustainable banking has been expanding in various dimensions, for example, from environmental protection to consideration of social issues including social inclusion of underprivileged groups by providing access to financing to small- and medium-sized enterprises (SMEs). The literature has well documented that banks have changed their approach to CSR and sustainability (Paulet, Parnaudeau, & Relano, 2015). For example, many banks have published CSR or sustainability reports to meet the increasing demand from the public for accountability (Nobanee & Ellili, 2016; Kaur, 2018; Pucheta‐Martínez, Bel‐Oms, & Nekhili, 2019). It is documented that sustainability reporting may be perceived as an expression of greater accountability, which is particularly important for banks in the aftermath of the 2007–2008 crisis (Fijałkowska & Zyznarska-Dworczak, 2018). Sustainability performance disclosure via CSR reports, sustainability reports or integrated reports is widely perceived as an expression of greater accountability to the wide range of stakeholders. Sustainability reporting confirms the banks' responsible behaviours and legitimises their operating activities. Indeed, banks have recently been more careful regarding CSR because they are more aware of the risks to their reputations, both directly as related to their dealings with stakeholders, and indirectly through their relationships with other organisations (e.g., Ullah, 2013; Fatma & Rahman, 2016; Fijałkowska & Zyznarska-Dworczak, 2018).

Banks play a vital role in financial intermediation, as it facilitates efficient capital allocation. Due to the financial interest of banks, banks can also lead to excessive risk-taking, which if not properly accounted for and managed can increase vulnerability to financial shocks. The 2008 global financial crisis was a typical example in which it shows that banking crises can have a severe and persistent negative effect on a financial system's stability and economic growth. From a broad point of view, these negative impacts are indiscriminate, affecting a wide variety of sectors in an economy, as well as social and environmental aspects. Banks are commonly treated as institutions of public trust as they are responsible for the effective management of risks associated with their activities. In particular, banks are responsible for securing return on resources entrusted to them by the public (e.g., depositors and investors) and therefore banks perform several socially responsible functions through their operation. On the one hand, banks should be considered themselves as a socially and environmentally responsible institution due to their role in an economy. On the other hand, banks should ensure loans, finance and investment provided by them should only be given to firms, clients, and projects that are environmentally and socially responsible. Indeed, nowadays banks bear significant responsibility for the environmental and social impacts of the business and projects they fund and banks themselves thus are also facing the challenge to become more sustainable compared to other financial institutions (such as insurance). Previous research has shown that there is a strong business case for banks to pay greater attention to environmental and social issues (e.g., Watchman, 2005; Aintablian, McGraw, & Roberts, 2007; Campbell & Slack, 2011; Finger Gavious, & Manos, 2018). The dynamics behind the business case include many supply- and demand-side factors, including pressure from consumers and other stakeholders, the awareness within the banks, as well as regulatory pressures. However, it is still unclear as to institutional factors influencing banks' sustainable development and the role of banks that play in promoting sustainability (Simpson & Kohers, 2002; Viganò & Nicolai, 2009; Weber, 2017; Nizam et al., 2019).

Empirical analysis shows that financial system regulation (including the new Basel III framework) assists to ensure greater financial system stability, by reducing the probability of financial crises and environmental risk. Although banks play an essential role in promoting sustainable development in an economy, the sector had a late start in acknowledging sustainability as significant (Aintablian et al., 2007). This applies to China as well. Only in the late 1990s banks started to play a more active role in being socially responsible. This shift happened because banks were realising that poor social and environmental performance decisions of their own and their clients make represent a threat to the success of their business. In the case of China, a large proportion of bad debt was in the sectors that were not doing well in protecting the environment and meeting the social objectives (Aebi, Sabato, & Schmid, 2012; Zadek & Chenghui, 2014; Finger et al., 2018).

No doubt, because of their intermediary role in an economy, banks hold a special position with regards to sustainable development (Pucheta‐Martínez et al., 2019). While the last decade has greatly seen the changing of banks' corporate behaviour towards sustainable development, there is still little empirical evidence available on the practical implementation of sustainable development by banks (e.g., in bank lending decisions and management strategies). Although there is strong evidence shown in the literature of bank regularly publishing CSR and sustainability reports (e.g., Carnevale et al., 2012; Kaur, 2018; Pucheta‐Martínez et al., 2019), little is known on the effect of these reports on the lending and project finance decisions of banks and long-term economic and social consequences. In many ways, it seems that banks have used CSR as a social umbrella to protect their social status and corporate reputations.

This study attempts to contribute to knowledge by explaining how CSR and sustainability, particularly the adoption of the Equator Principles (EPs) is used by Chinese banks to create a social umbrella to protect their status and corporate reputations and the key institutional factors influence banks' strategies for sustainable development and the adoption of the EPs. This study is important as it expects to provide a deeper understanding of CSR, sustainable development practices in Chinese banks where political objectives dominate and the whole operation of banks is strongly influenced by the government.

1.2 Research Gap

The increasing volume of project finance provided by commercial banks, combined with the growing awareness of environmental and social issues from the public, raises the question of whether a more serious consideration of those issues by banks would promote banking sustainable development. Also, an analysis of the dynamics and relationships between business, society and environment and how the inter-relatedness affects CSR practice in banks, leads to question whether the current practices of CSR and the adoption of the EPs in Chinese banks are unique in the context of emerging economies. To answer these questions, there is a need to understand the institutional factors that influence Chinese banks' sustainable development and the decision to adopt/not to adopt the EPs.

As the literature review shows, there are few studies attempted to investigate the insight of the adoption and non-adoption of the EPs by financial institutions, especially in the setting of emerging economies. Limited prior research attempted to show the benefits of adopting the EPs and the factors determining the adoption in the Western developed economies[1]. Having looked at the existing literature, the researcher cannot find any study that is specifically concerned with identifying the institutional factors that influence Chinese banks' sustainable development and the decision to adopt/not to adopt the EPs. Clearly, this is a research gap. This study attempts to fill the gap.

1.3 Research Aim and Objectives

Overall, the existing research as shown in the review of existing literature presented in Chapter 3 provides a research gap concerning practices of sustainable

[1] Wright and Rwabizambuga (2006) provide an analysis of the financial institution that publicly declared a commitment to the EPs and find that a large majority of these institutions are headquartered in Western Europe and North America.

development in banking in the context of the emerging economies that offers an opportunity to contribute to knowledge in sustainable development in banking in general, and the adoption/non-adoption of the EPs within a unique setting – China commercial banks in particular.

This study aims to critically identify institutional factors influencing banks' sustainable development and the adoption of the EPs in the case of China where the economy has been increasingly integrated with the global economy. More specifically, the objectives of this study include:

1) To understand the role of banks in CSR and sustainable development by reviewing the existing literature.
2) To comprehend the development of the EPs and its significance in promoting sustainability.
3) To appreciate the current state of Chinese banks' sustainable development and the EPs adoption.
4) To identify institutional factors that influence the decision-making of Chinese banks with regards to the adoption of the EPs and sustainable development.
5) To present some recommendations to China's policymakers and bank managers on the adoption of the EPs and sustainable development.

1.4 The Significance of the Study

This study sets to investigate why and how Chinese commercial banks began to address CSR, sustainable development issues (especially social and environmental concerns of project finance) in their operation and how this was influenced by various environments, but few banks adopted the EPs. The purpose of this study is to provide insight into the reasons why Chinese non-state-owned banks[2], but not state-owned commercial banks have adopted the EPs and what are likely consequences of the adoption from the banking industry perspective. This study responds to calls for further study into a fundamental question posed in the

[2] In this study, those banks that not owned by the central government are named as non-state-owned banks including joint venture banks, regional banks owned by local governments, foreign invested banks. They are different from private banks that were recently permitted to operate in China.

academic literature as to different behaviours between state-owned banks and private bank (e.g., Sapienza, 2004; Jia, 2009; Cornett, Guo, Khaksari, & Tehranian, 2010; Dong, Meng, Firth, & Hou, 2014) by focusing on Chinese banks' sustainable development and the adoption of the EPs.

This research aims to examine institutional factors influencing the adoption and non-adoption of the EP by Chinese commercial banks. In Western countries, many commercial banks demonstrate their CSR and sustainability behaviours through the implementation and compliance with the EPs (Wright, 2012). The focus of this study is on the EPs because it represents a potential real-world example of pursuing sustainable development and demonstrating the engagement of CSR. In China, only five small private commercial banks have signed for the EPs. Two of them just signed in 2020. The EPs are a voluntary framework for "determining, assessing, and managing environmental and social risk in projects"[3]. By adopting the EPs, banks help protect the environment by ensuring that their financed projects are eco-friendly and socially responsible (Chen, Hung, & Wang, 2018).

This research seeks to contribute to the growing body of work on sustainable development in banking in general and in the Chinese banking industry in particular. A large body of previous studies has recognised that the banking industry as a sector that is particularly relevant to sustainability. It is argued that the banking industry is relevant, not because of its own direct social and ecological footprints, but rather because of the huge impacts that arise through an allocation of capital to other industries and sectors in an economy, and the social needs of investments, especially in the investment for infrastructure development. Among many other initiatives that could be adopted by banks to implement their responsibilities for sustainable development, the adoption of the EPs would be evidence of a shift for banks towards greater importance being attributed to sustainable development engagement and commitment. It would be interesting to know why in the second-largest economy in the world with over 500 banks only five private commercial banks have adopted the EPs, and what are the reasons for the rest of banks that have not adopted this well-recognised initiative for sustainable development. The adoption of the EPs expects to lead to real changes in the culture of banking institutions (Conley

[3] The details of the EPs are provided at the website https://equator-principles.com (Accessed on 06 September 2020).

& Williams, 2011). Also, given the important role that EPs adopting financial institutions play in global project finance and their influences in the financial markets, the impact of these institutions on greening in other non-financial industries should not be negligible (Chen et al., 2018). For example, more than 60 per cent of global project finance bank loans were extended by Equator Principles Financial Institutions (EPFIs), reported by Project Finance International 2018 League Tables[4].

This study expects to contribute and extend the limited literature on the adoption of the EPs and its impacts on financial institutions. This study examines the impact of the adoption and non-adoption of EPs on financial institutions in terms of their CSR commitments and implementations, particularly in involving project finance. It is important to understand what leads to five Chinese banks to adopt the EPs, but hundreds of other banks, particularly the state-owned banks have not adopted the Principles.

One of the significances of this study is that an understanding of the EPs adoption process can provide valuable guidance on how to advance the Principles for better sustainable development in developing economies. To the best of the researcher's knowledge, no study exists that analyses the adoption and non-adoption of the EPs in the Chinese banking context.

1.5 An Overview of Research Methodology, Methods

This study is exploratory research and takes the interpretivism research doctrine, which holds the belief that reality and knowledge are socially constructed, with a view to identifying the influence of organisational context upon the decision of sustainable development engagement and the choice of (non-)adoption of the EPs in Chinese banks. The study uses a multiple case study approach accompanying by interviews of insiders of Chinese commercial banks to achieve the above main research objectives. This study adopts a qualitative research approach, based on primary data obtained from case studies and in-depth semi-structured interviews aiming to investigate the factors that influence Chinese banks' adoption and non-

[4] http://www.ifre.com/?&m=0&src=http://www.ifre.com/hybrid.asp?typecode=68&pubcode=1&navcode=386 (accessed on 15 November 2020).

adoption of the EPs and the engagement of sustainable development. A qualitative research approach is chosen because the research aim is to understand complex social phenomena, their decision-making processes, and the contexts of research subjects rather than measuring the variables involved, this seeking insight into phenomena that quantitative data is not available and cannot reveal (Eisenhardt, 1989; Eisenhardt & Graebner, 2007; Myers, 2013). Nowadays, qualitative research becomes increasingly recognised and valued, and it is a valued paradigm of inquiry (Barratt, Choi, & Li, 2011; Nowell, Norris, White, & Moules, 2017).

By the time of finalising this thesis five banks in China had adopted the EPs, however, the study focused on three case banks because two banks just recently became the signatory of the EPs[5]. The case studies of three banks combine documentary analysis with interviews of key stakeholders. Interviews of insiders from the non-adopting banks were also conducted to provide contrasting views from representatives of the adopting institutions, which provide a richer analysis of institutional factors influencing the adoption vs. non-adoption of the EPs among Chinese commercial banks.

1.6. Main Findings and Contributions

There are several main findings from this study. First, banks increasingly play an important role in CSR and sustainable development as it acts as an intermediate function in raising and distributing capital and Chinese banks have paid attention to CSR and sustainable development. Second, the EPs as a risk management framework have increasingly been recognised in the banking sector and have supported adopting banks in developing their environmental and social risk management systems and policies. In China, five non-state-owned banks have adopted the EPs, but none of the state-owned banks has adopted the EPs. Third, Chinese banks’ sustainable development has largely been guided by the authorities, and Chinese political and cultural attributes should be carefully considered in discussing the EPs adoption and sustainable development in Chinese banking.

[5] When the project started a few years ago, only one bank (i.e., Industrial Bank Co.) adopted the EPs. By the time of doing data collection, two more banks became the EPs adopting financial institutions, which are included in the case study and managers from these three banks were selected for interviews.

Fourth, the institutional factors that influence the adoption of the EPs among Chinese banks can be categorised into the external environment, organisational internal environment, resources environment and clients/project borrowers' environment, and the adoption of the EPs has largely been determined by the institutional factors (such as external influences, political considerations, cultural acceptance, bank managers' attitudes). These factors are mainly engendered by the external environment, organisational internal environment, resources environment and clients/project borrowers' environment. Fifth, the motivations of learning and developing links with financial institutions have driven senior managers of banks to adopt the EPs.

The contribution of this study is fourfold. First, this study focuses on the adoption of the EPs in China's banking sector. There is no prior study investigating the adoptions of the EPs in the Chinese banking sector. Understanding the motivations and institutional factors influencing these non-state-owned banks in China to adopt the EPs is important as China's banking sector is dominated by the state-owned banks, but none of them has adopted the EPs. The findings of this study provide evidence on the role of non-state-owned banks in promoting CSR and sustainable development in an economy where the state dominates. This study has contributed to the literature by drawing attention to the practices of Chinese non-state-owned banks in implementing new initiatives and concepts in promoting sustainable developments. Prior studies on CSR and sustainable development of Chinese businesses have largely focused on state-owned sectors (e.g., Zhu, Liu, & Lai, 2016; Chang, Jang, Li, & Kim, 2017; Li & Belal, 2018).

Second, this study contributes to the growing body of work on CSR and sustainable development in the banking sector, in that it focuses on a contemporary environmental and social risk management framework (i.e., the EPs) that is gradually adopted by financial institutions in contributing to the sustainable development of an economy. Academic researchers now recognise the financial services industry, particularly the banking sector is especially relevant to sustainable development. It is argued that the sector is relevant, not because of its own direct social and ecological footprints, but rather because of impacts that arise through the allocation of capital to other business sectors of an economy, primarily in infrastructure development and natural resources exploitation. The EPs are a framework or a set of principles that provides a benchmark and a risk management framework for financial institutions that finance large scale infrastructure and industrial projects, which underpin the economic development and growth, particularly in less-developed countries. It has been argued that the EPs, taken together with other environmental and social initiatives, can be shown as evidence of a shift toward greater importance being attributed to CSR and sustainable development in the banking sector. Banks are today facing greater pressures from a variety of stakeholders (particularly external stakeholders and international organisations) to be environmentally friendly and promote sustainable development. In response, many financial institutions based in developed economies have adopted the EPs and implemented sustainable development strategies. This study contributes to the broader discussion of the implications of banking sustainable development and the EPs adoptions for the operations, CSR, governance, and role of commercial banks.

Third, the role of non-state-owned banks in promoting CSR, sustainable development, and acceptance of the EPs in the setting of a state-dominated economy has not been studied in the literature. This study is one of the first studies of its kind in contributing to the existing literature as far as this issue is concerned.

Fourth, this study provides evidence from Chinese banks that political and cultural attributes of CSR should be carefully considered in discussing CSR and sustainable development. The study shows that the adoption of the EPs in Chinese banks is, to a large extent, subject to political considerations and cultural influences. This study shows that the adoption of EPs has largely been determined by the institutional factors in China and thus it extends prior findings in the literature on institutional determinants of adoption of the EPs.

1.7 The Organisation of Thesis

Figure 1.1 presents the structure of this thesis consisting of eight chapters. The key contents of each chapter are also outlined in the figure. Each chapter (except Chapter 1 and Chapter 8) starts with an introduction and concludes with a chapter summary. Chapter 1 is an overview of the whole thesis covering research backgrounds, aim and objectives, research methodology and methods, and main findings and contributions.

Chapter 2 describes the institutional background of this study (including China's context, China banking system, project finance in China and CSR in China), The Equator Principles (including the development of the EPs, the significance of the EPs in promoting social and environmental standards and responsibility, and the costs and benefits of adopting the EPs).

Chapter 3 presents a review of literature. It focuses on the concept of CSR, banks' engagement in CSR, and theories underpinned CSR and sustainable development. The theories include legitimacy theory, institutional theory, stakeholder theory, contingency theory, and greenwashing. In section 3.7, the choice of theories as theoretical frameworks is given, along with an explanation of research gap. In this chapter, it also includes the role of banks in sustainable finance, and banks and the EPs involving the motivations, the effect of adopting the EPs and challenging issues in implementing the EPs by financial institutions. In section 3.7, research gaps and theoretical framework are presented.

Chapter 4 is research methodology and design covering research philosophy and paradigms, research methodology choice and design, case studies, semi-structured interviews, and overall analysis approach. Based on the research aim and objectives, this study adopts a qualitative research approach with the use of case studies and interviews for the purpose of gaining a deeper understanding of the behaviours of Chinese banks towards the EPs and sustainable development.

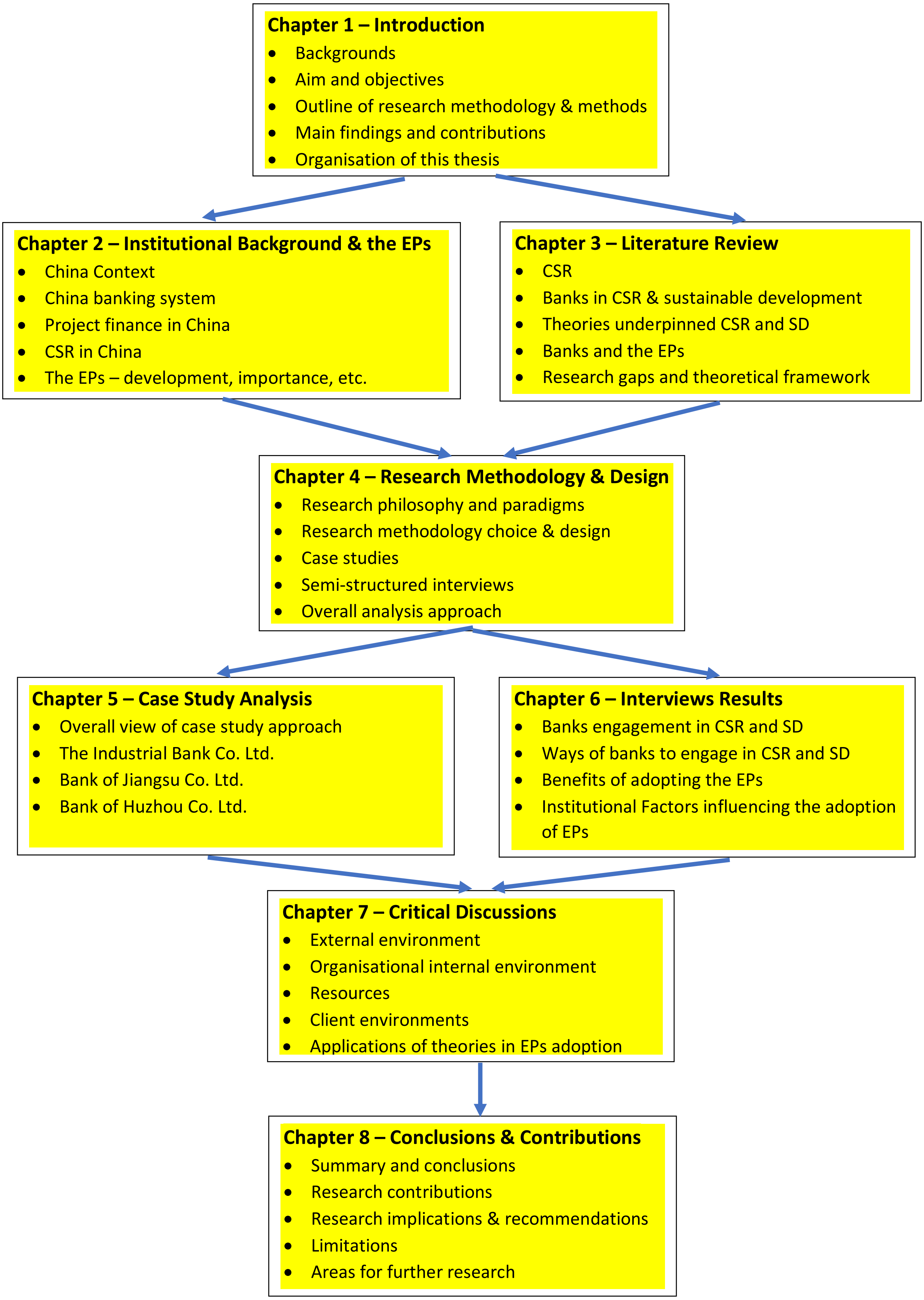
Chapter 5 presents case study analysis. In this chapter, three case studies are conducted with a focus on their adoption of the EPs. Each case study has three sections consisting of an introduction of case, CSR, and the adoption of EPs. Three case banks are the Industrial Bank Co., Ltd (China), Bank of Jiangsu Co., Ltd., and Bank of Huzhou Co. Ltd. (China).

Chapter 6 presents interview findings. In this study, 15 interviews are conducted to get insights of Chinese banks in their adoption/non-adoption of the EPs and sustainable development by seeking views and experience of senior managers from seven Chinese banks. The main interview questions include the importance and driving force of Chinese banks' CSR and sustainable development, the ways of banks engaging in CSR and promoting sustainable development, the key areas that banks play in promoting sustainable development, the benefits of adopting the EPs, and the factors influencing the adoption of the EPs.

Chapter 7 presents critical discussions with a focus on institutional factors influencing the adoption of the EPs in the Chinese banking industry. Factors are categorised into external environment (Section 7.3) including legal, regulatory, political factors, social and cultural factors, economic development, industrial peer, and external stakeholder actions; organisation internal environment (Section 7.4) including bank organisational characteristics, management capability and attitude of management, and bank experiences and business models relating to CSR; resource environment (Section 7.5); and clients/project borrower's environment (Section 7.6). Section 7.7 is concerned with applications of theories in explaining the EPs adoption of Chinese banks.

Chapter 8 is the final chapter consisting of summary and conclusion (Section 8.1), research contributions (Section 8.2), research implications and recommendations (Section 8.3), limitations (Section 8.4), and areas for further research (Section 8.5).

Figure 1.1: The structure of the thesis



Chapter 2: Institutional Background and the Equator Principles

2.1 Introduction

This chapter provides an institutional background including China context focusing on Chinese Socialist Economic System, legal and political China's banking system, project finance and CSR in China, and an introduction of the Equator Principles (EPs) including the key characteristics of the EPs and a brief sketch of the history of the EPs, as well as the main features of project finance. In addition, this chapter also discusses the costs and benefits of the adoption of the EPs. It should recognise that the institutional background is changing due to the current changes in the global economy and the impact of the coronavirus pandemic.

2.2 Institutional Background

The institutional context in China is complex and multidimensional, as evidenced by the interconnection between various social, political, environmental, and economic objectives and systems. The literature has provided a rich discussion of China's institutional background and its changes over the past few decades (e.g., Zhou, 2013, Hitt & Xu, 2016).

2.2.1 China context

The literature has provided a rich description of China context (e.g., Chow, Chau, & Gray, 1995; Allen, Qian, Zhang, & Zhao, 2012; Hildebrandt, 2013; Zhou, 2013; Hitt & Xu, 2016; Ten Brink, 2019). Since the late 1970s, China has embraced a capitalist market economy, the legacy of a centrally planned economy, a communist ideology and Confucian values, at the same time proactively connect its economy with the global market, which constitutes the main characteristics of China context (Chow et al. 1995, Yang et al. 2015, Li and Belal 2018; Parsa, Dai, Belal, Li, & Tang, 2021). It is also noted that China has offered a fruitful context for understanding different business practice and management as well as corporate behaviours towards CSR etc. largely because of what appears to be an ‘established’ socialist regime, with distinctive and immutable cultural facets (Li & Soobaroyen, 2021; Parsa et al, 2021).

China’s economic system has undergone three main stages since 1949. From 1949 to 1979, China operated a rigid central-command economy (Joy, 1990). Under this economy, the decisions concerning products, prices and distribution were all made centrally by government bureaux. The central government and its ministries/departments set production targets for each industry and even each enterprise, distributed its products, allocated materials and equipment, assigned personnel, took over profits and cover losses. Under this system, a SOE was no more than a production workshop of the government with the sole objective of fulfilling the output quotas set up by the government (Mun,1984; Holton,1985; Lockett,1988).

The second stage began in 1980 when China’s urban industrial reform was initiated. The central government commenced to recognise the problems with the centrally planning system and to relax its total control over the economy by reducing mandatory plans and replacing them with guidance plans. Accordingly, SOEs were granted more, although still limited, autonomy over production and market decision making (Joy, 1990). During this stage, an important contribute to the loosening of government total control was the emerging forces of non-state sector including rural township, village enterprises, private enterprises, and foreign-funded enterprises.

The third stage started in 1992 when China adopted the “Socialist Market Economy”. At its 14th Congress in 1992, the Communist Party of China approved the “Socialist Market Economy”, thereby signalling that the Chinese government finally abandoned orthodox centrally planning economic theory in favour of the Western style free-market economy. Under the initial reform plan, over 400000 state-owned enterprises were transformed from state production units to independent economic entities and millions of cadres became manages of economic entities and businesspeople with the power of making business decisions. A series of major reforms have been undertaken since the Congress. The most important ones are 1) the separation of government bureau from the control of enterprises, thereby SOEs could become independent economic entities; 2) the development of new markets including those dealing in commodities, finance and capital, labour and technology, pricing regulation; 3) the reform of China's financial system by opening up financial markets, setting up more commercial banks and allowing foreign capitals injecting into China's banking sector.

Since the economic reform, China has become more open, particularly in opening with Western economic, financial and business management ideas and approaches. Though today China is politically relaxed compared with the ages of the Cultural Revolution in the middles of 1960s-1970s, the rise of consumerism and worship of Capitalist's commercial culture cannot conceal the fact that China remains politically a totalitarian state and still, by and large a government highly controlled society. Political ideologies which run counter to many of Western values still prevail.

The Chinese legal system is a socialist system of law based primarily on the Civil Law model. The CPC guides the people's congress in stipulating laws and regulations. According to China's Constitution "The People's Republic of China is a socialist state governed by a people's democratic dictatorship that is led by the working class and based on an alliance of workers and peasants. The socialist system is the fundamental system of the People's Republic of China. Leadership by the Communist Party of China is the defining feature of socialism with Chinese characteristics. It is prohibited for any organization or individual to damage the socialist system." (Article 1, China Constitution).

China has adopted the Socialist Economic System. According to China's Constitution (Article 7), the state shall uphold a fundamental economic system under which public ownership is the mainstay and diverse forms of ownership develop in the primary stage of socialism. The state sector of the economy, that is, the sector of the socialist economy shall be the leading force in the economy and the state (i.e., the government) shall ensure the consolidation and development of the state sector of the economy.

In China, the State Council is the executive organ of the highest state organ of power. It is the highest state administrative organ, usually refers to as China's central government. According to China's Constitution (Article 89), the State Council has the responsibility of "exercising unified leadership over the work of local state administrative organs at all levels nationwide and stipulating the detailed division of functions and powers between the Central Government and state administrative organs in provinces, autonomous regions and cities directly under central government jurisdiction", "drawing up and implementing plans for national economic and social development and state budgets" and "directing and managing economic work, urban and rural development and ecological conservation.

Overall, China has distinct political, socio-economic, cultural, education and labour, financial systems that have shaped the development of CSR, sustainability, and their reporting (Moon and Shen 2010, Kolk and Tsang 2017; Parsa et al., 2021).

2.2.2 China's banking system

Since the introduction of Deng Xiaoping's economic reform and opening door policy, the Chinese economy has been transformed into a different phase. China's economy has grown at an unprecedented rate since the reform began in 1978. According to the World Bank (2016), China's economy grew at an average rate of approximately 10 per cent per year. During this period, the Chinese economy has been transitioning from a centrally planned economy to an economy with substantial market elements. In the last two years before the outbreak of Covid-19, the GDP growth rate was down to over 6%,[6] which was still one of the fastest developing economies in the world by the time.

Accompanying the economic reform, China's banking system has been gradually transformed from a centralised, state-owned, and government-controlled provider of finance into an increasingly competitive market in which different types of banks operate (Okazaki, 2017). Initially, before China's economic reforms in 1978, China's banking system was predominately government-owned and isolated from the global financial system and the international banking community. In the centrally planned economy, the function of banking was very limited. Chinese banks were largely subservient to the requirements of China's centrally planned economy. At the time, only three banks in China that remained fully government-owned operated in the market, primarily serving the financial needs of state-owned and collectively-owned enterprises. There were very limited services provided to individuals except taking deposits.

As part of the economic reforms, China's banking reform in the 1980s aimed to create incentives for its financial institutions to behave more like competitive,

[6] https://tradingeconomics.com/china/gdp-growth (Accessed on 26 December 2020)

commercial entities and become an institution that could support businesses. In the 1990s, to match the nation's macro-economic changes, the Chinese authorities began the process of transforming its banking sector from a government-directed system to a more commercially-driven system, characterised in part by market-based allocation mechanisms. The main goal of China's financial reforms in the 1990s was to make its banks more commercially driven in their operations with an introduction of competition and economic incentives for better performing institutions to gain more financial benefits. The reform in the banking sector was a part of China's wide range of economic transformation. At the same time, the reform opened the door to foreign financial institutions (such as banks, insurance companies) in order to attract foreign investment and learn experiences from multinational financial institutions. Domestically, many joint venture banks and non-state-owned financial institutions emerged to compete with the state-owned institutions. However, China's central government continued to wield significant influence over the operations of many Chinese banks, not only in financial and economic policies but also in influencing the behaviours of bank managers through political systems (e.g., bank senior managers were mostly appointed by the ruling political party – the Communist Party of China (CPC)).[7] In the banking sector, three main government agents were acting on behalf of the government, including the People's Bank of China (PBOC) that is China's central bank, the China Banking Regulatory Commission (CBRC) that is China's banking regulator, and the Ministry of Finance (MoF). In the last decade, local government officials also attempt to influence the operations of Chinese banks, particularly those banks that were owned by local governments. In 2003, the CBRC was established to replace the PBOC to guide and supervise China's banking sector. In May 2018, China Banking and Insurance Regulatory Commission (CBIRC) was set up by merging the CBRC and the China Insurance Regulatory Commission (CIRC).

After the economic reform in the 1990s, most banks have been transformed into mixed ownership entities in which the central and local government may or may not be a major equity holder in a bank. No doubt, China's economic reforms have enlarged the role its banks are playing in the country's economy and the

[7] China has a strong political party and across the whole country, the CPC controls all senior manager appointment including those in banks, state-owned corporations, universities, hospitals and professional bodies.

government's economic policy. Presently, China's banks operate in a hybrid world in which they are at the time encouraged to make decisions based on commercial considerations, and at other times expected to abide by government directives, serving the interest of China's Communist Party and the state, which has serious implications for banks' objectives, performance measures and in some cases the solvency of banks.

At present, there are several categories of banks operating in China, with different ownership structures and serving different functions and customer bases. The first category includes wholly state-owned banks. The second category consists of 'corporatised' commercial banks (i.e., those banks that were previously wholly state-owned but were transformed into joint-stock companies, in which the government is generally the largest shareholder). The third category encompasses a variety of local banks, with provincial or municipal governments as major shareholders. A fourth category is composed of Chinese joint-stock commercial banks that were created after the start of China's banking reforms and with very low levels of state ownership.

Now there are six state-owned banks as presented in Table 2.1. China's banking sector has been dominated largely by four mainly state-owned policy banks (ICBC, BOC, CCB and ABC) and two relatively smaller ones (i.e., BoCom and PSBC). There are a few other specialist state-owned policy banks, such as China Development Bank, the Export-Import Bank of China (China Exim Bank) and Huaxia Bank. Starting in 2005, China began transforming the wholly state-owned banks into joint-stock corporations; a process it calls 'corporatisation', that were to operate as commercial banks.

Table 2.1: Six state-owned commercial banks in China

Name	**Abbreviation**	**Chinese Name**	**Headquarter**
Industrial and Commercial Bank of China	ICBC	中国工商银行	Beijing
China Construction Bank	CCB	中国建设银行	Beijing
Bank of China	BOC	中国银行	Beijing
Agricultural Bank of China	ABC	中国农业银行	Beijing
Bank of Communications	BoCom	交通银行	Shanghai
Postal Savings Bank of China	PSBC	中国邮政储蓄银行	Beijing

Note: These are the six state-owned commercial banks in China. ICBC is the lasted bank in the world in terms of total assets. ICBC, CCB, BOC and ABC are the top 10 banks in the world, according to the report by the magazine of Banker. Presently, these banks are all listed banks, but the government held a majority of shares.

The next category of banks in China is called 'local banks' consisting of a variety of financial institutions. The largest category within local banks is commonly known as "city commercial banks". Over the past two decades, some provincial and municipal governments established their banks (e.g., Guangdong Development Bank and Shanghai Pudong Development Bank). These banks were mainly owned by the local government and were usually used by the local government to handle locally developed projects and programmes. Since the beginning of this century, these banks have been gradually transformed into joint-stock banks where the local government is often the largest shareholder. The main local commercial banks are given in Table 2.2. One of the EPs adopting banks in China, i.e., Industrial Bank is in this category.

Table 2.2: 12 nationwide incorporated commercial banks in China

Name	Chinese	Headquarter
China Merchants Bank	招商银行	Shenzhen
Shanghai Pudong Development Bank	上海浦东发展银行	Shanghai
Industrial Bank	兴业银行	Fuzhou
China CITIC Bank	中信银行	Beijing
China Minsheng Bank	中国民生银行	Beijing
China Everbright Bank	中国光大银行	Beijing
Ping An Bank	平安银行	Shenzhen
Huaxia Bank	华夏银行	Beijing
China Guangfa Bank	广发银行	Guangzhou
China Zheshang Bank	浙商银行	Hangzhou
China Bohai Bank	渤海银行	Tianjin
Hengfeng Bank / Evergrowing Bank	恒丰银行	Yantai

Local banks also include village and township banks, rural commercial banks, rural cooperative banks, and rural credit cooperatives. From 2004, the Chinese authorities have begun the process of transforming the rural credit cooperatives into joint-stock commercial banks. In 2009, the CBRC launched a three-year plan to open nearly 1,300 new rural financial institutions including over 1000 rural commercial banks. By the end of 2017, there were 41 Chinese listed banks as shown in Exhibit 2.1. Bank of Jiangsu that adopted the EPs is within the category of joint-stock commercial banks, along with other three banks that have recently become the signatory of the EPs (i.e., Bank of Huzhou, Chongqing Rural Commercial Bank, and Mianyang City Commercial Bank)[8].

Table 2.3 shows the positions of Chinese banks in the world bank ranking (2017), indicating that Chinese banks, particularly the Big Four state-owned banks are very large in size, ranked in the world top 10.

Exhibit 2.1: 41 Chinese listed banks by the end of 2017

5 Large commercial banks	• Industrial and Commercial Bank of China (ICBC) • China Construction Bank (CCB) • Agricultural Bank of China (ABC) • Bank of China (BOC) • Bank of Communications (BOCOM)
9 National Joint-stock commercial banks	• China Merchants Bank (CMB) • Industrial Bank (IB) • Shanghai Pudong Development Bank (SPDB) • China Minsheng Bank (CITIC) • China CITIC Bank (CITIC) • Cinda Everbright Bank (CEB) • Ping An Bank (PAB) • Huaxia Bank (HX) • China Zheshang Bank (CZB)
26 City and rural commercial banks	• Bank of Beijing (BOB) • Bank of Shanghai (BSH) • Bank of Jiangsu (BJS) • Bank of Nanjing (BONJ) • Bank of Jinzhou (BJZ) • Chongqing Rural Commercial Bank (CQRCB) • Bank of Ningbo (BONB) • Huishang Bank (HSB) • Shengjing Bank (SJB) • Harbin Bank (HRB) • Bank of Tianjin (BTJ) • Bank of Zhengzhou (BZZ))

[8] These banks will be described in detail in Chapter 5 as part of case studies.

	• Bank of Huangzhou (BHZ) • Bank of Guiyang (BGY) • Bank of Chongqing (BCQ) • Jilin Jiutai Rural Commercial Bank (JTRCB) • Bank of Qingdao (BQD) • Changshu Rural Commercial Bank (CSRCB) • Wuxi Rural Commercial Bank (WXRCB) • Jiangyin Rural Commercial Bank (JYRCB) • Rural Commercial Bank of Zhangjiagang (ZJGRCB) • Wujiang Rural Commercial Bank (WJRCB) • Guangzhou Rural Commercial Bank (GRCB) • Zhongyuan Bank (XYB) • Bank of Chengdu (BOCD) • Bank of Gansu (BGS) • Postal Savings Bank of China (PSBC)

Table 2.3: China's banks in the world top 200 by tier 1 capital (2017)

Country rank	*World rank*	*Bank*
1	1	Industrial and Commercial Bank of China
2	2	China Construction Bank
3	4	Bank of China
4	6	Agricultural Bank of China
5	11	Bank of Communications
6	23	China Merchants Bank
7	25	China Citic Bank
8	27	Shanghai Pudong Development Bank
9	28	Industrial Bank
10	29	China Minsheng Bank
11	31	Postal Savings Bank of China
12	49	China Everbright Bank
13	59	Ping An Bank
14	67	Hua Xia Bank
15	73	Bank of Beijing
16	85	Bank of Shanghai
17	93	China Guangfa Bank
18	117	Bank of Jiangsu
19	131	China Zheshang Bank
20	145	Evergrowing Bank
21	146	Bank of Nanjing
22	166	Chongqing Rural Commercial Bank
23	168	Huishang Bank
24	175	Bank of Ningbo
25	187	Shanghai Rural Commercial Bank
26	190	Shengjing Bank
27	199	Bank of Tianjin
28	200	China Bohai Bank

Source: data adapted from thebankerdatabase.com, 'Ranking – Top 1000 World Banks by Tier 1 and Assets – 2017'.

Overall, since the beginning of this century, China has been in the process of undertaking its financial reform in many directions, for example, introducing non-state-owned commercial banks in the banking sector, promoting bond and equity finance, increasing exchange rate and capital account liberalisation, enhancing financial regulation, and promoting the efficiency and scope of finance (Hsu, 2016). Over 3,500 banking institutions exist outside the Big Four state-owned policy banks within China's financial system. These include policy banks, joint- stock commercial banks, city commercial banks, rural commercial banks, rural cooperative banks, rural credit cooperatives, village and township banks, foreign banks, and others. If trusts, financial leasing, money brokerage, and other types of companies are added to this list, the number of banking outlets is even greater (Hsu, 2016).

One of the uniquenesses of the Chinese banking system is the influence of China's political party (Boateng, Liu, & Brahma, 2019). In China's banking system, the political system of governance (i.e., the Communist Party leadership) that is deeply embedded in the whole economy has descended from China's bureaucratic tradition. The Party exerts centralised control through a system of party committees, led by the Central Committee, which is comprised of China's most powerful political leaders. The Politburo, a small group of party leaders elected by the Central Committee determines the general direction of the country's policy for the economy and all other developments. The role of government organs (e.g., the State Council, the PBoC, the CBRC) is to execute the vision of party leaders and implement the tasks under the general direction instructed by the Politburo. Within the banking system, each bank, even a small rural bank has a party committee (Boateng et al., 2019). The function of party committees is to transmit the values and ideology of the CPC to bank senior officials, managers, and employees. The party committee also serves as a means to monitor and discipline officials and managers. At the top level, the Central Organisational Department, which is the party organisation responsible for personnel administration has taken the leading role in the appointment of senior officials in the banking sector, including senior managers of the Big Four state-owned banks. Even the appointment of CEO for China Minsheng Bank (the first private bank in China) had to pass through the Central Organisational Department (McGregor, 2012). The political influence expects to influence the main business strategies and policies of banks, including the adoption of the EPs.

2.2.3 Project finance in China

The characteristics of project finance have been well described in the literature (e.g., Esty, 2004; Esty, Knoop, & Sesia, 2005; Subramanian & Tung, 2016). It shows that private sector firms have historically used project finance for industrial projects (e.g., mines, pipelines, oil fields, heavy manufacturing projects). During the decade of the 1990s, infrastructure projects such as water, electricity, natural gas, transportation and telecommunication, were increasingly financed by private sectors in many developed worlds (e.g., UK). In China, the privatisation (or partially privatisation) of state-owned enterprises, the deregulation of traditional state monopolies and key industries (including utilities), and the internationalisation and integration of markets since the opening of the economy in the 1980s have boosted the use of project finance. Recently, the new initiative of ‘one belt one road’ has promoted the investment in infrastructure (including road, railways, ports and airport) with the use of project finance (Yu, 2017; Liu, 2018). However, taking the bank businesses as a whole, project finance constitutes only a small part of the overall portfolios of banking lending and financing.

To date, the importance of project finance as a method of funding large infrastructure and industrial assets has grown significantly in China under the government economic policies of transferring the Chinese economy into a sustainable development economy (such as low carbon economy) (Guo & Zhang, 2000; Shen Tam, Gan, Ye, & Zhao, 2016; Yang, Long, & Li, 2018). Infrastructure projects (such as railways, airports, expressways, power stations, dams, hospitals) traditionally bankrolled by public bodies or strictly regulated monopolies, have become increasingly important to private sector firms and financial institutions. China has promoted the public-private partnership (PPP) model for the construction of large infrastructure development projects (Zhang, Gao, Feng, & Sun, 2015; Shen et al., 2016). Large-scale development projects can have significant adverse impacts on the environment and local communities, particularly when they are undertaken in remote, ecologically sensitive areas (Shen et al., 2016; Yang et al., 2018).

Chinese banks have played a dominant role in project finance as the banking sector provides the largest amount of finance required (Guo & Zhang, 2000). Typical projects that require project finance include the development of natural resources such as natural gas, coal, and oil, and large construction projects in the transportation, electric power, agriculture, forestry, electronics, and public utility sectors (Kleimeier & Versteeg, 2010). The key features of such project finance include 1) the project involves a large amount of lump-sum finance from a bank or bank syndicate; 2) the project is long-term for construction and payback, and as a result, it involves high levels of risk and uncertainty; 3) the project usually generates strong economic and social benefits; 4) the project expects to have a huge impact on the local economy and environment with significant social and environmental implications (Esty, 2004; Eisenbach, Schiereck, Trillig, & von Flotow, 2014; Subramanian & Tung, 2016).

As a part of expanding project finance by commercial banks in China, Chinese banks have been experimenting with more green financing to support the government environmental and climate change policies (Wang & Zhi, 2016). The diversification of project finance towards green financing and financing environmental projects in China has coincided with a rise in the public interest and international influence, particularly from international investors. Chinese banks have increasingly issued green bonds (Zhang, 2019). According to the Financial Times, China's green bonds are still dominated by banks to a greater extent than in other countries. ICBC issued $2.3bn in green bonds in London and Hong Kong in 2018, helping to bring foreign issues to 40 per cent of the total in the first half, according to the CBI.[9] Greater interest in green financing incentives in China has pushed Chinese commercial banks to pay more attention to borrowers' social and environmental performance. Chinese banks have increasingly incorporated borrowers' social and environmental performance (or generally CSR performance) into their lending strategies and portfolios (Zhang, 2019). This green investment has no doubt supported Chinese banks in pursuing CSR and promoting the concept of the social and environmental consequences of project finance and the principles of EPs.

2.2.4 CSR in China

In China, CSR has attracted much attention since the beginning of this century. The Chinese authorities have undertaken several CSR and CSR-related initiatives as shown in previous studies (e.g., Wang & Juslin, 2009; Zhu & Zhang, 2015; Huang,

[9] https://www.ft.com/content/e6745e52-ad34-11e8-8253-48106866cd8a (Accessed on 5 February 2020)

Duan, & Zhu, 2017; Zhang, 2017). Among many of these initiatives, political motive dominates with the government objective of “building a harmonious society” under the latest leader of President Xi. For example, the CPC at the 2006 National People’s Congress stressed the priority of the government in building a harmonious society and cross all sectors and industries, this is the key goal of Chinese authorities. The 2006 China’s company law requires firms to undertake social responsibility in the course of doing business and proving services. The CBRC issued the “Green Credit Guidelines”, and the Shenzhen Stock Exchange (SZSE) issued “Guidelines on Social Responsibility of Companies Listed on the SZSE” in 2006.

In December 2008, to ensure that companies are publicly transparent about their CSR activities and performance, both stock exchanges in China (i.e., the Shanghai Stock Exchange (SHSE) and the SZSE) began mandating CSR disclosure for a subset of Chinese listed firms, including banks. Because both stock exchanges are fully owned by China’s government and directly supervised by the CSRC, this mandate was essentially the mandatory requirement of the Chinese government.

In China, firms and banks are encouraged to participate in CSR through governmental measures and initiatives (e.g., green financing, environmental blacklists, and CSR awards) (Chen et al., 2018). Table 2.4 lists major CSR policies that are relevant to the banking sector in China.

Table 2.4: China’s main CSR policies for the banking industry

Time	**China Related Policies on CSR (in Chinese)**	**China Related Policies on CSR**
January 2006	新《中华人民共和国公司法》明确提出公司要承担社会责任，其第五条要求“公司从事经营活动，必须遵守法律、行政法规，遵守社会公德、商业道德，诚实守信，接受政府和社会公众的监督，承担社会责任。”	The new "Company Law of the People's Republic of China" of January 2006 clearly stated that companies should bear social responsibilities. Article 5 of the Company Law is that "The company must comply with laws and administrative regulations in conducting business activities, abide by social ethics and business ethics, be honest and trustworthy, and accept the government and the public supervision and assume social responsibility."
September 2006	深圳证券交易所发布《深圳证券交易所上市公司社会责任指引》。该指引从股东和债权人权益保护，职工权益保护，供应商、客户和消费者权益保护，环境保护与可持续发	The SZSE issued the "Guidelines for Social Responsibility of Listed Companies on the SZSE." The guidelines set out specific requirements for the social responsibilities of listed companies on the SZSE from the aspects of shareholders’ and creditors’ rights protection,

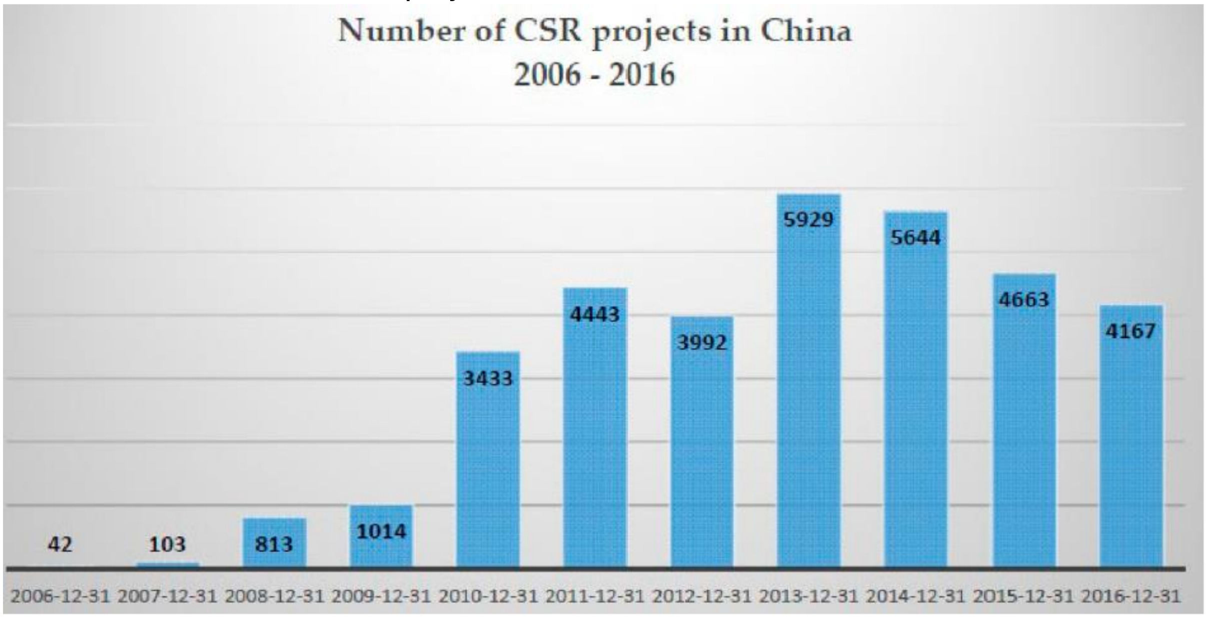
	展，公共关系和社会公益事业等方面对深圳上市公司的社会责任提出了具体要求。	employees' rights protection, suppliers, customers and consumers' rights protection, environmental protection and sustainable development, public relations and social welfare.
October 2006	十六届六中全会决议明确提出要增加企业的社会责任，决定中提到"着眼于增强公民、企业、各种组织的社会责任"。	The resolution of the Sixth Plenary Session of the Sixteenth Central Committee of the CPC clearly stated that CSR should be increased, and the resolution refers to "focusing on enhancing the social responsibility of citizens, enterprises, and various organizations".
April 2007	上海银监局出台《上海银行业金融机构企业社会责任指引》，该指引从利益相关者权益保护，环境保护，公共利益维护，企业社会责任管理方面对上海的银行业金融机构提出社会责任要求。	The Shanghai Banking Regulatory Bureau issued the "Guidelines on CSR of Banking and Financial Services Institutions in Shanghai". The guidelines guide the banking and financial services industry of Shanghai from the aspects of stakeholder protection, environmental protection, public interest protection, and CSR management, and require the financial institutions to apply social responsibility.
December 2007	中国银行业监督管理委员会办公厅发布《中国银监会办公厅关于加强银行业金融机构社会责任的意见》，意见明确了银行在社会责任建设中的地位和影响力，提出切实履行社会责任的方向和具体措施。要求银行业金融机构要定期发布社会责任年度报告，明确履行社会责任理念与目标。	The General Office of the CBRC issued the "Opinions of the General Office of the CBRC on Strengthening the Social Responsibilities of Banking Financial Institutions", which clearly defines the status and influence of banks in the construction of social responsibility, and proposes the institutions to implement them, the direction and specific measures of social responsibility. Financial institutions in the banking industry are required to regularly publish annual reports on social responsibility and fulfil the concepts and goals of social responsibility.
January 2009	上海证券交易所向各上市公司发布了《公司履行社会责任的报告》编制指引。指引对上市公司发布社会责任报告提出规范性要求，明确了包括社会可持续、环境及生态可持续、经济可持续在内的主要关注点，在可能情况下披露每股社会贡献值及计算口径，并建议聘请第三方验证。	The SHSE issued guidelines for the preparation of CSR Reports to listed companies. The guidelines set out normative requirements for listed companies to issue social responsibility reports, clarify the main concerns including social, environmental and ecological, and economic sustainability, and disclose the social contribution value per share and calculation measure when possible, and the report should be verified by a third party.
January 2009	中国银行业协会向各会员机构印发了社会责任指引的通知，提出银行业金融机构的企业社会责任至少包括经济责任、社会责任和环境责任，并对社会责任的管理提出了具	The China Banking Association[10] issued a notice of social responsibility guidelines to various member institutions, proposing that CSR of banking financial institutions includes at least economic responsibility, social responsibility and environmental responsibility,

[10] China Banking Association (CBA) is China's nationwide non-profit self-regulation organization for the banking sector, set up in May 2000.

	体要求。	and proposed CSR management specific requirements.
July 2012	中国银行业监督管理委员会出台了《银行业金融机构绩效考评监管指引》，将社会责任类指标作为银行业金融机构绩效考评的 5 大指标之一。作为重要的非财务因素，社会责任类指标强调银行业金融机构以可持续发展为目标，实现稳健经营和科学发展。	The CBRC issued the “Guidelines for the Performance Evaluation and Supervision of Banking Financial Institutions”, which takes social responsibility indicators as one of the five indicators for the performance evaluation of banking financial institutions. As an important non-financial factor, social responsibility indicators emphasize that banking financial institutions aim at sustainable development to achieve a stable operation and scientific development.
June 2015	国家质量监督检验检疫总局、国家标准化管理委员会发布了《社会责任指南》（GB/T 36000-2015）、《社会责任报告编写指南》（GB/T 36001-2015）、《社会责任绩效分类指引》（GB/T 36002-2015）。	China’s General Administration of Quality Supervision, Inspection and Quarantine and China’s National Standardization Management Committee issued the Guidelines for Social Responsibility (GB/T 36000-2015), Guidelines for Compiling Social Responsibility Reports (GB/T 36001-2015), and "Guidelines for the Classification of Social Responsibility Performance" (GB/T 36002-2015).

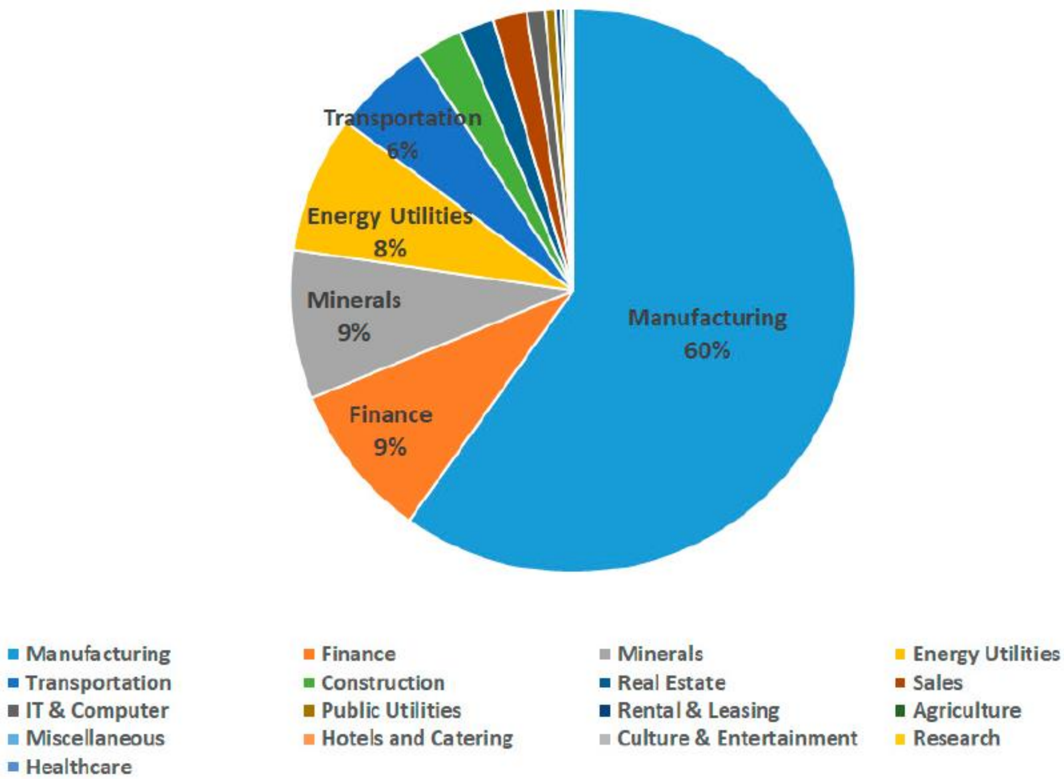
Li, Khalili, and Cheng (2019) provide data on China’s CSR projects reported by Chinese companies between 2006 and 2016, as shown in Exhibit 2.2. It shows that Chinese companies adopted CSR projects between 2006 and 2013 with increasing rates. The trend, however, decreased after 2013, resulting in 4167 projects in 2016. The upward trend between 2006 and 2013, according to the authors, was associated with the development of environmental sustainability, such as the encouragement of cleaner production by the Chinese government in 2013. The decreasing trend after 2013 was associated with the increase in the costs of the projects and the decrease of financial supports from the government and other sources (Li et al., 2019). Using the CSRC classification standard in 2012, Li et al. (2019) categorise company data into 17 industries and then count the projects affiliated to companies in each industry to reflect the performance of the industry (Exhibit 2.3). As shown in Exhibit 2.3, the finance sector had occupied about 9 per cent of total CSR projects, which seems too low comparing to the role played by the sector in China’s economy.

Exhibit 2.2: Number of CSR projects in China, 2006–2016. CSMAR data



Source: Li et al., (2019), Sustainability 2019, 11, 354 (www.mdpi.com/journal/sustainability)

Exhibit 2.3: A proportion of CSR projects according to industry type. CSMAR data



Source: Li et al., (2019), Sustainability 2019, 11, 354 (www.mdpi.com/journal/sustainability)

Besides, the disclosures of CSR mandated by the authorities allow the government to evaluate the effectiveness of these projects and their measures. Also, numerous environmentally-focused non-governmental organisations publish pollution maps, lists of high-pollution firms and firms' specific CSR performance evaluations. For instance, China's Institute of Public and Environmental Affairs has developed and published the China pollution map database to monitor corporate environmental performance. Some agencies have also issued company CSR ranking and evaluation reports. For example, the Research Center for CSR within the Chinese Academy of Social Sciences has released annual China's top 100 firms CSR development index.

In China, green finance has been elevated to a national strategy. Seven ministries and commissions jointly issued the Guiding Opinions on Building a Green Financial System; The CBRC formulated the green Credit Statistics Systems and organised major banks to carry out self-evaluation on green credit; China's CSRC also unified and standardised the environmental information disclosure of listed companies (PRI, 2018, p.1).

Overall, in response to the international trend of environmental protection and social responsibility, as well as Chinese authorities' CSR initiatives, more and more banks have adopted relevant actions towards CSR engagement and sustainability. Sustainable development as a concept is increasingly taken by Chinese banks.

2.3 The Equator Principles (EPs)

2.3.1 The development of the EPs

Given the increasing public awareness of global warming and environment consequences of large investment projects and the leadership role of the financial institutions in reversing the impact of global warming, four major international banks (i.e., ABN AMRO, Barclays, Citigroup, and West LB) together with the International Finance Corporation (IFC) and the World Bank Group introduced the EPs on June 4, 2003. Esty et al. (2005) describe the history of the EPs, which dates back to the late

1990s when bankers at ABN Amro first approached the IFC with concerns that there were no established principles to guide lending decisions when finance projects came to social and environmental risks. ABN Amro and the IFC had a meeting in October 2002 in London with other major financial institutions involved in project finance including Barclays, Citigroup and WestLB to exchange their experiences and discuss their concerns. Following the meeting, these banks met to prepare draft principles, which were sent out to other banks, the IFC, non-government organisations and bank clients for comments. On June 4, 2003, ten financial institutions announced to adopt the EPs[11]. In the following few years, over forty financial institutions announced that they adopted the EPs. As of the beginning of September 2020, a total of 110 financial institutions from 38 countries had adopted the EPs with each adopter committed to ‘‘[...] implementing the [Equator Principles] in their internal environmental and social policies, procedures and standards for financing projects and [...] not provid[ing] [p]roject [f]inance [...] where the client will not, or is unable to, comply with the [Equator Principles]”[12].

The EPs are “a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making” (https://equator-principles.com/about/). 10 banks initially adopted the principles in June 2003. Since then, more financial institutions have adopted the EPs, particularly after the launch of the revised EPs that relaxed some restrictions in 2006. The EPs were substantially revised in 2006 (EPs II), 2011 (EPs III), and 2020 (EPs IV)[13].

Basically, the EPs are a voluntary set of guidelines designed for promoting social, ethical, and environmental responsibility for financial institutions in financing projects, particularly in emerging markets. The EPs specifically address the negative external impacts of project finance with a total cost of US$10 million or more. The EPs were largely based on the policies and guidelines of the International Finance Corp. a

[11] The first eight adopters were Barclays (United Kingdom), Citigroup (United States), Crèdit Swisse Group (Switzerland), Crèdit Agricole (France), Rabobank (the Netherlands), Royal Bank of Scotland (Scotland), UniCredit Bank (Germany), and Westpac Banking Corporation (Australia), and by the end of its first year a total of 14 banks adopted the principles.
[12] As reported by the EPs (https://equator-principles.com/adoption-news/shinhan-bank-adopts-the-equator-principles/) (Accessed on 09 September 2020).
[13] The latest version of EPs4 is available from https://equator-principles.com/wp-content/uploads/2020/05/The-Equator-Principles-July-2020-v2.pdf (Accessed on 09 September 2020).

Member of the World Bank Group. Under the EPs, adopting institutions are required to categorise financed projects as high (A), medium (B), or low (C) in social or environmental risk, which is considered as a precondition of considerations for project funding. According to the EPs, borrowers have to conduct an environmental impact assessment and present an environmental management plan for projects under categories (A) and (B). Projects under category (C) do not require an environmental impact assessment. The borrower or a third-party expert under category (A) projects must also put an environmental management plan in place to address project compliance, mitigation, action plans and monitoring procedures. This compliance should be completed as a part of a project's loan covenant, enabling the financial institutions to withdraw funding if the borrower breaches its obligations.

The EPs applies to a specific type of bank lending called project finance, which is a form of long-term financing primarily used for infrastructure and development projects (Kleimeier & Megginson, 2000). In practice, banks particularly syndicate project finance loans due to the large amounts of funding required for a typical project. Also, forming a syndicate permits banks to diversify their loan portfolios, share risks and monitoring skills, as shown in prior literature (e.g., Dennis & Mullineaux, 2000). In the syndicate system, a bank is either a lead arranger or a participant. As a lead arranger, it is the most active bank in the syndicate process and project finance loans and it is responsible for conducting due diligence on the borrower and the project itself, negotiating the loan terms, guaranteeing an amount for a price range, developing covenants with lawyers, and constantly monitoring the progress of the project. A participant bank is a passive syndicate member whose contribution is rather limited to funding the loan (Gatti, Kleimeier, Megginson, & Steffanoni, 2013). It is possible in practice that a loan syndicate is managed by a mix of a lead arranger that has adopted the EPs and others that have not. This is quite the case in China. Arranging loans with the EPs adopters can influence those that are part of the same syndicate but not yet adopted the EPs to follow suit. This can create the possibility of a few Chinese private banks to pressure on their peers to adopt the EPs. Lead arrangers can pressure their peers to adopt the EPs in order to socially legitimise the principles, to pre-empt more stringent regulation, and/or to share and thereby reduce implementation efforts.

When the EPs are adopted in project finance, the lead arrangers will have to reach a consensus on the categorisation of a project according to the assessment criteria of A, B, C and in line with the nature of the appropriate environmental assessment and covenant package. The criteria are based on environmental and social impact with the use of the IFC's screening procedures. The IFC and the World Bank develop a set of environmental and social policies, which guide on matters relevant to IFC's operations including environmental assessment, natural habitats, involuntary resettlement, and indigenous people. Among the IFC's various social and environmental policies, the environmental assessment policy is a key umbrella policy as various requirements in terms of social and environmental assessments were based on the policy[14]. The IFC uses two sets of guidelines for its projects including the pollution prevention and abatement handbook, and a series of environmental and health and safety guidelines.

When a financial institution finances a project, the EPs adopting financial institution will be specifically asked to review and categorise the project as either "A" (high risk), "B" (moderate risk) or "C" (low risk) according to the IFC classifications with a view to ensuring that an environmental and social assessment and management plan for the project was developed. This also ensures adequate community consultation to be conducted and covenants the borrower to satisfy the EPs' requirements. In addition, this process also requires the employment of independent experts to monitor the borrower's compliance. Financial institutions that adopt the EPs voluntarily commit to applying environmental and social principles to the design, execution and management of project finance loans and pledge not to engage with or provide finance to clients who would not comply with the Principles. For example, Royal Bank of Scotland in the UK recently decided to voluntarily stop lending money to coal companies by the end of the decade to show its commitment towards climate change and environmental responsibility[15].

[14] For details, the website of the IFC provides more details on the policy - www.ifc.org/enviro.
[15] Reported by Sky News on 13 February 2020.

2.3.2 The significance of the EPs in promoting social and environmental standards and responsibility

The EPs have since 2003 paid attention to and focused on social and environmental standards and responsibility, covering a wide range of issues relating to robust standards for indigenous peoples, labour standards, and consultations with local affected communities within the scope of project finance. The EPs have also promoted convergence around common environmental and social standards[16].

The EPs follow the IFC safeguard policies and the World Bank's pollution prevention and abatement guidelines. Under the IFC Safeguard Policies, all project sponsors are required to assess the impact of a project to be financed on the natural environment and society. The World Bank Guidelines consider the levels of pollution discharge by industry and establish minimum environmental standards. From the perspective of financial institutions that finance the project, both the IFC and the World Bank guidelines provide a benchmark for the EPs. The EPs are considered as a set of instructions on how to implement the standards from these two international organisations (Richardson, 2005).

With project finance under the EPs, lenders base their credit appraisals on the projected revenues or cash flows from the operation of the facility, rather than on the general assets or the credit of the sponsor of the facility. Lenders, in particular, rely on the assets of the facility, including any revenue-producing contacts and other cash flow generated by the facility as collateral for debts. With regards to project financing, the debt terms are not primarily based on the sponsor's credit support or the value of the physical assets of the project. Project performance from both technical and economic perspective is the core of project finance. Normally, at the heart of the project finance transaction is a so-called 'special purpose vehicle' that consists of the consortium shareholders/investors, who may be major investors or have other financial interests in the project (such as the originator or contractor).

Up to 1st September 2020, the EPs have been adopted globally by 110 financial institutions from 38 countries covering the majority of international project finance debt within developed and emerging markets. According to the EPs (https://equator-

[16] For example, some multilateral development banks (including the European Bank for Reconstruction & Development), and export credit agencies through the OECD Common Approaches are increasingly drawing on the same standards as the Principles.

principles.com), the principles can be applied to all industry sectors and four financial products including 1) project finance advisory services; 2) project finance; 3) project-related corporate loans, and 4) bridge loans.

Financial institutions that adopt the EPs will "commit to implementing the principles in their internal environmental and social policies, procedures and standards for financing projects and will not provide project finance or project-related corporate loans to projects where the client will not, or is unable to, comply with the EPs" (https://equator-principles.com/about/). The EPs are the financial institutions' policy framework to guide large project finance lending decisions. In adopting these principles, the financial institutions "… seek to ensure that the projects we finance are developed in a manner that is socially responsible and reflects sound environmental management practices" (from the Preamble of the EPs, www.equator-principles.com). The financial institutions use these principles to assess a project's impact on the natural environment and the societal consequence.

Fundamentally, the EPs constitute an international voluntary code developed by banks to encourage consideration of social and environmental issues in project finance. It is argued that such codes can flexibly bridge the gap between individual banks' sustainability initiatives and mandatory, legal regulation (Macve & Chen, 2010). It is also recognised in the literature that the EPs reporting of banks is not fully satisfactory (Macve & Chen, 2010). Macve and Chen (2010) find that while the voluntary EPs initiative has been remarkably successful in matching banks' strategic motivation, the environmental benefits may primarily be a by-product of the risk management processes of banks, consistent with enlightened shareholder theory (Jensen, 2001). They state that it is difficult to measure the extent to which the EPs have had a positive effect on the environment. Conley and Williams (2011, p.553) argue that "possible that experience with the EPs is leading to real change—in some cases, rapid change—in the culture of banking organizations. In fact, it could be the case that the moral and ethical sensibilities of employees and managers are being more deeply engaged by the reflective processes the EPs demand".

Overall, the EPs have spurred the development of responsible environmental and social management practices in the financial sector and particularly commercial banks and have supported the EPs adopting banks in developing their environmental and social risk management systems and policies.

2.3.3The costs and benefits of adopting the EPs.

The significance of the adoption is related to the influence given by the EPs financial institutions (EPFIs) on projects they finance. If an EPFI ascertains that firms fail to comply with the social and environmental requirements set by the EPFI in their projects, the financial institution can refuse to extend loans to such firms and projects. Once the EPFI has decided to finance those projects, they can also discontinue financing the projects if projects fail to satisfy the requirements set by the EPFI. The preamble of the EPs states that EPFIs strive to ascertain that their financed projects are eco-friendly and socially responsible.

The literature has provided a rich discussion on the costs and benefits of a bank adopting the EPs. No doubt, in theory, financial institutions are likely to engage in the EPs if they can perceive benefits that exceed the associated costs. Studies in CSR indicate that firms engage in profit-maximising CSR, based on the anticipated benefits from their activities, as shown in studies by Bansal and Roth (2000), Baron (2001), McWilliams and Siegel (2001), Heal (2005), and Mitra and Dash (2020). The benefits include, among others, a better reputation, better market access, the potential to charge a premium price for its product and service or enhanced possibilities to recruit and or retain a high-quality workforce. Prior studies have focused on the differences and similarities between the financial performance of those “responsible” firms and comparable firms that do not meet the same CSR criteria (e.g., Perrini, Russo, Tencati, & Vurro, 2011; Peng & Yang, 2014; Nollet, Filis, & Mitrokostas, 2016). Many studies have investigated the trade-off between financial performance and social performance perceived by banks in their engagement in CSR (e.g., Soana, 2011; Weber, 2017; Finger et al., 2018). It shows that there are several reasons why CSR behaviour can co-exist with profit-maximising behaviour in equilibrium. For example, CSR activities create non-market value for certain stakeholders who are willing to bear the associated costs in the form of foregone profits, wages or other applicable benefits and income. If these stakeholders are consumers who are willing to pay a higher price for the product or service if it is produced socially responsible, CSR can turn out to be profitable. Then, of course, the entire industry will eventually adopt this practice and such CSR actions will become business as usual. Therefore, socially responsible behaviour ultimately results in cost-benefit analysis, where the costs are more easily identified than the profits. The benefits can be in terms of non-market value, which certain stakeholders (e.g., employees, shareholders, consumers, local communities) are willing to bear. Benefits can also be in the form of reduced risk for the stakeholders of the firm. This back-firing of non-CSR behaviour can take many forms, for example, consumer boycotts, environmental scandals, employee actions, pressure from NGO's, negative publicity or lawsuits. Displaying CSR behaviour could be of greater importance to banks that demonstrate considerable exposure, that is, banks that are in the spotlight.

It is argued that the adoption of the EPs will lead to greater learning among project financial institutions about environmental and social issues and that having greater expertise in these areas will better enable them to advise clients and control risks (Wright & Rwabizambuga, 2006; Scholtens & Dam, 2007). Actually, taking social and environmental issues into account in project finance would improve the banks' understanding of the interactions of the project with stakeholders' concerns, and can improve credit risk management. However, there are also other limitations with the EPs framework. For example, no formal mechanisms exist to screen or monitor the corporate practices of the institutions that adopted the principles.

Unfortunately, the literature has provided little evidence as to how the adopters implemented the EPs and to what extent that reputational risk of an adopter is reduced with the EPs in place. Sethi (2002) highlights that the impact on reputation is an important factor in adopting codes of conduct. A good reputation may be beneficial from a risk perspective. Saunders and Allen (2010) argue that reputation is crucial for a financial project. Also, the reputation of a bank that finances a project can be put at risk by improper conduct of its borrowers. In this respect, the EPs are indeed a means to reduce reputation risk. Under the EPs, the adopted financial institutions expect to carry out more checks in project assessment, which may increase the security and reliability of the project, not only in terms of finance but also social and environmental effect. Wright and Rwabizambuga (2006) argue that the wide adoption of the EPs will increase competitive pressure on local banks to raise their standards, ultimately resulting in building reputations.

The EPs can be regarded as self-regulation of the international banking community in the form of a code of conduct. This type of self-regulation is ‘soft-law’ and contrasts with traditional ‘command-and-control regulation’. As noted by Shelton (2008), self-regulation fills gaps left by traditional law and soft-law can evolve into industrial standards, and this can be the basis of binding law. Wright and Rwabizambuga (2006) provide a thorough assessment of the EPs from the perspective of the financial industry by arguing that adopters are largely concentrated in institutional environments shaped by targeted advocacy campaigns organised by civil society groups and strong regulatory systems (that is particularly in Europe and North America).

Ethical Investment Research Services (EIRIS) (2006) evaluates the way in which EPs adopting banks apply the EP principles and finds that from the nine banks under investigation, only two banks’ management response is classified as ‘good’, that is sufficient to mitigate social and environmental risks to an acceptable level. According to EIRIS (2006), six out nine failed to report in detail about their compliance, monitoring, and auditing systems and only three banks showed evidence of client diagnostic tools or audits to evaluate social and environmental risks.

There are many reasons for the unsuccessful implementation of the EPs. Among these reasons, one problem seems to be relating to local laws and regulations that may hamper the power of financial institutions to intervene and to enforce the contract under the EPs (Esty et al., 2005; Richardson, 2005; Contreras, Bos, & Kleimeier, 2019). On the one hand, this could result in conflicts of interest, particularly the interest between the lenders and borrowers. Typically, the perspectives of the borrowers and their local community about employment, pollution and rights of various parties may conflict with the policies and claims of the financial institutions (Contreras et al., 2019). On the other hand, as there is no international standard to report and assess the CSR performance of firms, it would be rather too difficult for financial institutions to make a ‘true’ assessment of the social and environmental performance of the borrowers (Macve & Chen, 2010).

BankTrack[17] (2004) criticises the adopters for financing projects that violate the EPs. It describes projects in which the adopting banks participated in the financing of projects that violated the standards of the IFC and the EPs[18]. BankTrack (2005) assesses the way in which the EP adopting banks implement the EPs and finds that a substantial number of banks “did not perform in a satisfactory manner in this respect”. It argues that adopting the EPs is used by some banks as a way to “greenwash” their operations. Some adopting banks provide limited transparency and disclosures and are lack of governance and accountability. Recently commenting on the comprehensive risk management concept of the EPs, BankTrack believes that “the current concept of risk used in the EPs is inadequate and needs to be expanded”[19]. This is because the current risk management concept of the core of the EPs only focuses on managing risks posed by external circumstances to a project. BankTrack believes this should be expanded to encompasses all risks that a project poses to communities, nature and climate, both locally and globally.

The next chapter will provide more reviews of the existing studies, in particular the impacts of the adoption of the EPs on the behaviours of financial institutions.

2.4 Summary

This chapter provides an institutional background and an introduction of the EPs. The institutional background introduces the economic and political system of China, the current banking system in China, and project finance and CSR in China that is given in Section 2.2. Section 2.3 provides an introduction of the EPs that provides some fundamentals of the research subject on the development of the EPs, the importance of the EPs as well as the costs and benefits of adopting the EPs. The detailed review of the literature is given in the next chapter.

[17] BankTrack is the international tracking, campaigning and CSO support organisation targeting private sector commercial banks and the activities they finance. For the details of BankTrack’s comments on the EPs, see https://www.banktrack.org.

[18] An example is the Baku–Tblisi–Ceyan oil pipeline that is supposed to run from Azerbaijan, via Georgia, to the Turkish coast of the Mediterranean, and the Oleoducto de Crudos Pesados pipeline in Ecuador.

[19] https://www.banktrack.org/blog/pandemic_risk_and_the_equator_principles_new_epa_guidance_provides_helpful_recommendations_but_could_go_further (Accessed on 10 September 2020).

Chapter 3 – Literature Review

3.1 Introduction

The focus of this study is on the (non-) adoption of the Equator Principles (EPs) by Chinese banks. The EPs are a prime example of voluntary self-regulation that aims to ensure buy-in from the financial services sectors (particularly commercial banks) and to avoid imposing legislation concerning social and environmental impacts (Contreras et al., 2019). According to the UN, the EPs provide a recognised risk management standard (Abb, Feller, & Vacherand, 2017). The EPs are a tool that is needed to enable the business and banking community to work and innovate together to address the challenge of the UN Sustainable Development Goals (Abb et al., 2017).

In this study, the question of why only five privately-owned Chinese banks (most of them are small banks) have adopted the EPs and none of these state-owned big banks has adopted the EPs will be investigated. It is important to understand what leads to five Chinese banks to adopt the EPs, but hundreds of other banks, particularly the state-owned banks have not adopted. It would be interesting to know the motivations behind Chinese banks in engaging in CSR and sustainable development, but they are not keen to sign the EPs. Moreover, one of the significances of this study is that an understanding of the EPs adoption process in China can provide valuable guidance on how to advance the principles for better sustainable development in developing economies. This literature review chapter starts from the concept of corporate social responsibility (CSR), followed by banks in CSR engagement, covering banks in CSR and sustainable development, banks' communications of CSR, CSR and bank performance, and CSR and sustainability reporting by banks. Then, this chapter reviews four main theoretical perspectives used in the literature, which have been widely adopted to explain corporate behaviours towards CSR and sustainability including legitimacy theory, institutional theory, stakeholder theory, and greenwashing.

In Section 3.5, studies of banks and the EPs are reviewed with a focus on the motivations of banks to adopt the EPs, the effect of adopting the EPs on financial institutions, and challenging issues for banks in implementing the EPs. The following section (i.e., Section 3.6) looks at the role of banks in sustainable finance by considering the social and environmental commitment that a bank can play in project finance and green finance. The final section gives a chapter summary.

3.2 The Concept of Corporate Social Responsibility

There is no universally accepted definition of CSR. The term CSR can be described as an instrument, policy, concept or even a business model that demands business organisations to apply a radical change in attitude and corporate behaviour, which requires a paradigm shift in business operation from mere shareholder value maximisation to considerations of interests of more stakeholders. In the view of Carroll (1999), the first recorded perspective of CSR was made by Bowen (1953) who defined CSR as an organisation's social obligation "to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p.6). Davis (1960) defined CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (p.70). McGuire (1963) in his book "Business and Society" stated that: "The idea of social responsibility supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations" (p.144). McGuire emphasised that businesses should act justly as proper citizens (p.144). Walton (1967) argued that "… the new concept of social responsibility recognises the intimacy of the relationships between the corporation and society and realises that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals" (p.18). Johnson (1971) purported social responsibility of a business organisation as "…one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities and the nation" (p.50). Johnson brought the stakeholder concept into the definition of CSR. Carroll (1979) defined that: "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time" (p.500). The World Business Council for Sustainable Development (WBCSD, 1999) states that: Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large (p.3). The definition of WBCSD captures the dimensions of economic, social, stakeholders and voluntariness of a business organisation that deems to be socially responsible. Apparently, the decisions made as well as actions of business organisations have different impacts on the lives of humans and depend on what the objectives and values of a specific society are. Business managers are therefore responsible for the consequences of their actions which are beyond their organisation's financial objective and accomplishment. There are a need and acknowledgement for business organisations to be socially responsible. Bowen (1953) in his book argued strongly that social responsibility contains an important truth that must guide business in the future. Carroll (1991) defines CSE as it encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organisations.

CSR is the belief that a business organisation has a responsibility to more than just its shareholders. Through CSR activities, the organisation looks beyond narrow shareholder value maximisation in search of purposes and outcomes for all related stakeholders (e.g., customers, employees, creditors, suppliers, communities, governments, and the environment). In other words, CSR is concerned with the need to connect the organisation prosperity with broader social and community welfare, realising the interdependence of business and society and that they underpin each other in a synergetic way. Because a business organisation is also a community of people, which operates in a social and natural environment, the environment and social impacts of which, therefore, must be fully considered.

In general, the concept of CSR originally became pervasive in the 1960s. Since the 1970s, it has been widely refined and used in a variety of ways to cover social, environmental, legal, moral, and governance responsibilities. In banking, engaging in CSR activities is a way of banks making restitution to the society in respect of social and environmental demand for finance and loans. From the legitimacy point of view, banks are also social creations depending largely on the support of the society for survival (Wilmhurst & Frost, 2000). Arguably, banks may just engage in CSR activities to earn the continued support of the society and authorities in the case of state-owned banks.

As a main subject in the business disciplines, CSR received much attention since the publication of R. Edward Freeman's book "Strategic Management: A Stakeholder Approach" in 1984. This book first time puts CSR as a strategic issue and calls for stakeholder management, instead of shareholder management. In a simple word, CSR is the belief that business organisations have a responsibility to more than just their shareholders. By engaging in CSR (such as donations, green operation and service, business ethics, employee volunteerism, community partnerships and corporate citizenship to financing carbon projects etc.), business organisations look beyond shareholder value alone in search of positive outcomes from all stakeholders. Many issues that covered under the umbrella of CSR initiatives and programmes that can be offered by banks include, for example, sustainable development, green finance, responsible stakeholder engagement and management, fair trade, ethical finance, environmental protection, as well as financing projects and programmes aiming for poverty alleviation, social equality, social harmony, health and education in disadvantaged communities.

3.3 Banks' Engagement in CSR

3.3.1 Banks engagement in CSR and sustainable development

The banking industry plays an important role in sustainable development and promoting CSR. Currently, sustainability is one of the most significant trends in the industry as most banks have begun an issuance of sustainability reports communicating their commitment to governance, social, economic and environmental concerns and CSR performance. It could be in the form of investors' desire for sustainable responsible investing or corporate management's focus on CSR or investors' focusing on sustainability and environmental impact issues (Nizam et al., 2019). In fact, banks are the heart of all modern markets as they pump financial resources like lifeblood through the system, enabling innovation, economic growth, and prosperity (Sustainalytics Thematic Research; 2014). Nevertheless, the role of banks often goes beyond their original function as intermediaries. It is well-known that the core function of banks as enablers of economic growth and prosperity remains indisputable, but the public is increasingly concerned about how banks fulfil this purpose (Pagano, 1993; Arestis, Luintelc, & Luintel, 2010; Laeven & Valencia, 2012). For example, there has been an increase of criticism from the public towards the financing given to SMEs by banks. Banks have been criticised by the public and CSR activists who want a large stewardship commitment of financial institutions, concerning their involvement in aiding businesses *inter alia* supporting small businesses and the development that massively harm the environment, damage human rights, and are connected to severe adverse impact on local communities and ultimately society at large. It could be argued that though in all these cases, banks do not directly affect the society and environment, they have the capability and economic power to do so indirectly via their influence on the firms and projects because they provide capital to the firms and projects (Green, 1989; Weber & Remer, 2011).

The banking sector responded to the stakeholder concerns on CSR relatively relates to the changes and challenges of CSR, and the development of stakeholder demands. According to Viganò and Nicolai (2009), the banking sector first considered environmental, then social issues. Now, integrations of environmental, social and governance (ESG) dimensions are considered by banks and there are relationships between ESG and bank risk-taking and corporate performance (Di Tommaso & Thornton, 2020). CSR being an instrument of the corporate sector serves to increase and legitimise the business organisation’s economic performance, in addition to appears as the embodiment of the fundamental principles of business ethics. Over the past few decades, the banking sector has gone through several major transitions. Particularly, the substantial change was made after the 2007/08 global financial crisis. The financial crisis drew much attention to the necessity of pursuing CSR in the banking sector in order to rebuild trust with the public, increase accountability and transparency. The banking sector began to relook at its role beyond the traditional role of an intermediary that channels savings into investments and corporations. The sector has a role to play of social function that is obviously beyond the protection of the legitimate interests of depositors and owners, as well as an efficient allocation of capital and appropriate risk management. Social and environmental responsibilities and better governance are largely considered as part of obligations of financial institutions from various perspectives (such as legitimacy, accountability, and corporate citizenship).

After the financial crisis, in developed market economies, banks and other financial institutions (such as insurers) searching for a way out started to focus more on CSR, governance, and sustainable development. Financial institutions such as banks as leading sectors in an economy have responded to increasing pressure from external stakeholders in terms of their role in society (Branco & Rodrigues, 2008). One example is that the financial statements of those financial institutions have increasingly paid attention to the social, economic, and environmental impacts of their operations and services (Jain, Keneley, & Thomson, 2015; Chantziaras, Dedoulis, Grougiou, & Leventis, 2020). Moreover, investment in CSR as a global phenomenon has well recognised as an important corporate governance mechanism and corporate management strategy in most international banks (Amin-Chaudhry, 2016).

In the banking sector, engaging in CSR activities is a way of banks making reimbursement to society. Prior research has presented evidence that investments in CSR have the potentials of making positive contributions to the development of society and business (Hategan & Curea-Pitorac, 2017). Nowadays, more banks are beginning to realise the benefits from engaging and investing in CSR and developing sustainable development agenda as reported in the literature (e.g., Soana, 2011; Chaudhary, 2017; Famiyeh, 2017; García-Sánchez & García-Meca, 2017; Kaur, 2018).

In the academic literature, there has been a great deal of ambiguity and uncertainty about what CSR actually means (Reich, 1998) to a bank as well as the motivation behind a bank's engagement in CSR (e.g., Ruiviejo & Morales, 2016). The issue is even more problematic and complicated for state-owned banks where commerce interests are intertwined with political objectives. This is a typical case among Chinese banks where the objectives of China's Communist Party have dominated and more recently the influence of the Party has been increased in all affairs of banking businesses (Boateng et al., 2019).

One of the main motivations for sustainable development is the discourse of politicians, government officials and business managers in support of the adoption of sustainability concepts and principles due to increasing consciousness about the global warming, environmental and social concerns facing the globe (Rodriguez-Melo & Mansouri, 2011; Pucheta-Martínez, et al., 2019). The classical concept of sustainable development was developed by the World Commission on Development and Environment in the report entitled “Our Common Future” (Brundtland, 1987), that states: “Sustainable development is the development that meets the needs of present generations without, however, compromising the ability of future generations to meet their own needs”. In terms of the concept of sustainable development, intergenerational aspects relate to issues affecting current and future generations in order to promote equality and therefore address these concerns today is essential. As shown in the literature, some of the most important intergenerational concerns include the mitigation of climate change and the reduction of carbon emission (Holden, Linnerud, & Banister, 2014). The concept of sustainability suggests a compound of interconnected dimensions that paradoxically at the same time a limited action of the others, is driven by them. Among the potential prospects to which sustainability can be associated with the environmental, social and economic dimensions become known, which forms the concept of Triple Bottom Line (TBL) as originated in Elkington (1997). The TBL focuses on corporations not just on the economic value, but also on the environmental and social value that they add or destroy. At its narrowest point, TBL is used as a framework for measuring and reporting the performance of companies with regards to economic, social, and environmental parameters. In its broadest sense, the term is used to capture the entire set of values, issues, and processes that companies must address to minimize any harm resulting from their activities and create economic values, social and environmental benefits (Elkington, 1997).

3.3.2 Banks’ communications of CSR

Indeed, for banks and corporations, the importance of communication of their CSR activities and commitments has been widely recognised in the literature. Several studies have indicated the relevance of CSR disclosure in disclosing the CSR performance of organisations and show that the level of CSR disclosures reduces information asymmetry, which results in the lower cost of capital (e.g., Dhaliwal, Li, Tsang, & Yang, 2014; Cahan, De Villiers, Jeter, Naiker, & Van Staden, 2016).

Cahan et al. (2016) reveal that organisations with superior CSR performance have incentives to provide higher levels of CSR disclosure and more importantly that stakeholders are able to perceive the content of the organisations' communications. Their study shows there is a positive relationship between the amount of CSR disclosure and the value of an organisation; therefore they argue that if investors think CSR disclosure is using for window-dressing purposes, they would not react or would react negatively to it. A study by Chauvey, Giordano-Spring, Cho and Patten (2015) shows that organisations, often report more extensively on CSR initiatives. Unfortunately, few companies disclose negative CSR performance in their reports. This is the same situation for many banks.

3.3.3 CSR and bank performance

In 1960, Davis argues that social responsibility of a business organisation should be seen within a managerial context, where socially responsible business decisions could be justified as having the ability to bring economic gain to the organisation in the long run, thus paying it back for being socially responsible. Accordingly, if a business organisation avoided its social responsibility, it would lead to a reduction in its economic power. Therefore, there is a positive relationship between social responsibility and the business' economic gain and performance. Since the 1960s, there has been a significant volume of publications devoted to the tests of such a relationship between CSR and corporate financial performance (e.g., Boulouta & Pitelis, 2014; Santoso & Feliana, 2014; Mikołajek-Gocejna, 2016; Okafor, Adeleye, & Adusei, 2021).

Research that has attempted to investigate if CSR helps in creating value for the firm shareholders or whether it destroys business value can be classified into several groups based on the findings of the existing literature: 1) positive relationship (e.g., Weber, 2008; Jo & Harjoto, 2011), 2) negative relationship (e.g., Waddock & Graves, 1997; Barnea & Rubin, 2010), and 3) no significant relationship (Fomukong, 2014). The previous studies in which a positive relationship between the two have largely dominated the literature. Empirical studies showing a positive relationship include, for example, Lee, Faff and Langfield-Smith (2009), Chen and Wang (2011), Mustafa, Othman, and Perumal (2012), Peng and Yang, 2014; and Hategan and Curea-Pitorac (2017). Empirical studies revealing a negative relationship include, for example, Yang, Lin and Chang (2010), Rahmawati and Dianita (2011), Lioui and Sharma (2012), and Chen et al. (2018). A few studies have shown no significant relationship between CSR and firm financial performance, including, for example, Chih et al. (2010), Linthicum, Reitenga and Sanchez (2010), Soana (2011), and Dinsmore (2014). No doubt, this sort of divergence of findings creates a gap in the knowledge of the potential value of social conduct of business and banking.

Overall, the existing studies have provided mixed results as to the relationship between CSR performance and bank financial performance. Some studies show a positive link between the financial performance of the banks and social performance (e.g., Simpson & Kohers, 2002; Cornett, Erhemjamts, & Tehranian, 2014). Some prior studies also find a positive relationship between the financial performance of the banks and banks' environmental-friendly performance (e.g., Jo, Kim, & Park, 2015). Yet, studies are showing opposite evidence on the relationship. For example, Soana (2011) and Nollet et al. (2016) find a negative relationship between the financial performance of banks and their CSR performance. Chih et al. (2010) discover no significant relationship between banks' financial performance and sustainability business practices.

In terms of relationships between Chinese banks' CSR and the cost of bank loans, Huang et al. (2017) find that there exists an inverse U-shape relationship between CSR and the cost of bank loans. Also, CSR threshold for state-owned enterprises (SOEs) is higher than for non-SOEs. In particular, the CSR threshold for SOEs is lower in regions with a high degree of marketisation than in regions with a low degree of marketisation. The findings indicate that the value-destroying effect occurs during CSR underinvestment phase, which is different from the overinvestment view. Moreover, the effect of CSR on the cost of bank loans also depends on contextual factors such as firm ownership and marketisation level.

Weber (2017) analyses the connection between the sustainability performance of Chinese banks and their financial indicators to explore whether sustainability regulations can be implemented without decreasing the financial performance of the banking sector. The study finds the environmental and social performance of Chinese banks increased significantly between 2009 and 2013. Also, the study finds a bi-directional causality between financial performance and sustainability performance of Chinese banks. Based on institutional theory, according to Weber (2017), this interaction may be influenced by the Chinese green credit policy. The green credit policy is part of the country's sustainable finance package, led by the Chinese government[20]. Via policies and management measures, the initiative essentially restricts bank loans to projects that are harmful to the environment and increases loans to projects that benefit the environment. To some extent, this initiative is in line with the fundamental objectives of the EPs.

Essentially, banks play an active role in the economic development of countries by having the ability to choose investment projects, manage risks, and decide who has access to finance and what activities will be financed. Clearly, by performing this kind of function, the financial institutions also have a huge impact on society. However, it is often argued that banks act socially responsible because they anticipate some financial benefits. This argument seems fit reasonably well with conventional banks; however, it is rather unclear if this also applies to the state-owned banks where the government imposes huge control and financial objectives sometimes are secondary after the government-defined objective (such as maintaining social stability set up by the Chinese government a few years ago). This study expects to identify the difference between these two types of banks in terms of sustainable development, CSR engagement and the adoption of the EPs.

A recent article by Muhmad and Muhamad (2020) provides a review of prior studies in the literature on the relationship between sustainability practices and financial performance. It highlights that since the adoption of sustainable development goals[21] by the UN, companies have started to focus on the environment, people, and planet with the belief that engaging in sustainability will lead to better financial performance. Accordingly, scholars have paid much attention to the relationship between sustainability practices and the financial performance of business organisations.

[20] In China, the CPC party policies are the same as the government policies as the country is ruled by the CPC. This is one of the unique characteristics of China's institutional environment. Green credit policies are also the Party's policies.

[21]The United Nations (UN) had adopted the 2030 Agenda for Sustainable Development through the Sustainable Development Goals (SDGs) in 2015. A total of 17 SDGs has been officially adopted by 193 countries (Muhmad & Muhamad, 2020)

Muhmad and Muhamad (2020) use content analysis to examine the literature comprising a total of 56 articles indexed in Web of Science and Scopus and find that about 96% of the publications reported a positive relationship between the two.

3.3.4 CSR and sustainability reporting by banks

For banks and corporations, the importance of communication of their CSR activities and commitments has been widely recognised in the literature. The motivations for banks to disclose their environmental and social information can be explained with various theories. Banks are redirecting their operations from maximising shareholders wealth to maximising stakeholders' value. From the business point of view, although shareholders share the financial wealth as argued by Friedman (1962), other stakeholders including employees, customers, the local communities are the ultimate risk owners who care about the social impact of banking business operations. In this way, it can argue that banks disclose their social, environmental (and recently governance) activities and performance not only by employing their financial capital, but also human capital, social capital, relationship capital, natural capital to enlarge their well-being. Moreover, banks may be more interested in serving the social needs to build a strong local base for future sustainable business. This, even more, is the case for Chinese banks that put social development objectives instructed by the government often as a priority of their operations and they, therefore, would like to report to the public of their performance[22].

The reasons for banks to disclose environmental, social and governance (ESG) information are because strong local presence expects to reduce the likelihood of bank failure, as documented in the literature (e.g., Kaufer, 2014; Nobanee & Ellili, 2016). Nobanee and Ellili (2016) argue that the compliance of the banks with the best practices of the sustainability disclosure and the integration of the environmental and ecological dimensions in the annual reports indicate the assurance of the banks in increasing the transparency and reducing the information asymmetry and costs related to the debt financing.

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[22] Reading many CSR and sustainability reports from Chinese banks finds that most banks report their compliance with the government social development goals and objectives as the key reporting items.

A recent study by Chen, Hung and Wang (2018) investigates how the mandatory disclosure of CSR impacts firm performance and social externalities through analysing China's 2008 mandate requiring firms to disclose CSR activities. They show that while the mandate does not require companies to spend on CSR, mandatory CSR reporting firms do experience a decrease in profitability after the mandate. They find that mandatory CSR disclosure changes firm behaviour and generate positive externalities at the expense of shareholders. Tsang (1998) investigates the difference between a publicly owned bank and a privately owned bank in terms of their disclosure of CSR information. Interestingly, Tsang finds that the public bank which existed in the sample disclosed less social responsibility information than privately owned banks.

Campa and Zijlmans (2019) recently published a study concerning CSR recognition and support for the arts by presenting empirical evidence from European financial institutions. They use a sample from 42 largest listed European financial institutions with data from 2004 to 2013. Their study finds that financial institutions rewarded for their CSR initiatives are also those organisations that have engaged in significant corporate support for the arts. Their findings indicate that annual and social reports issued by financial institutions have different informative relevance for the stakeholders of financial institutions. It is important for financial institutions to engage with stakeholders and disclose their CSR performance to the stakeholders.

Hamid (2004) researches corporate social disclosure in annual reports by banks and finance firms in Malaysia and finds that product/service-related disclosures seem to be more frequent than environmental and energy, human resources of community-related disclosures. This finding is largely confirming the findings of previous studies that banks and financial services firms disclosed less environmental-related information than social information. Hamid's (2004) findings also suggest that bank size, listing status and age of business are associated positively with corporate social disclosure, whereas profitability is not.

Studying corporate social reporting in annual reports from 1998 to 2001 for six Irish banks and four international financial institutions and on the web sites in 2002 of the six Irish banks, Douglas, Doris and Johnson (2004) find that the most reported issues in the annual reports were related to corporate governance and human resources. Community involvement was the least reported. Concerning the international sample of four financial institutions, the most reported issues in the annual reports were community involvement, corporate governance, and human resources. None of the Irish banks made any environmental policy disclosures. Their findings also show that Irish banks disclose more social responsibility information on their web sites than in their annual reports.

In sum, banks have increasingly disclosed social and environmental information, however, the levels of disclosures are different concerning individual issues. Largely, banks report more on social issues than environmental related issues. Recently, banks have gradually provided more detailed disclosures on their corporate governance and human resources.

3.4 Theories Underpinned Sustainable Development and CSR

For this study, there will be using several theories to explain the behaviour of Chinese banks in sustainable development and the adoption of the EPs. This section reviews these theories.

3.4.1 Legitimacy theory

Legitimacy theory has been widely considered as a foundation to back CSR and CSR reporting[23]. There has been a vast stream of research in CSR, accounting, financial reporting, and institutional studies dedicated to the definition of legitimacy and understanding the mechanisms involved in the development of the concept and its dimensions. Indeed, the mechanisms involved in formulating legitimacy are complex and are conducted at different levels and different socio-political contexts.

There are various definitions of legitimacy theory. Suchman (1995) defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (p.574). Chen and Roberts (2010) define legitimacy theory as "achievement of legitimacy by creating congruence between the value system for the organization and the value system for the society". In the view

[23] Campbell, Craven and Shrives (2003) document that "legitimacy theory is probably the most widely used theory to explain environmental and social disclosures."

of Chen and Roberts (2010), when the objectives of the organisation are in line with the social expectations of the society, legitimacy is achieved. The relationship defined from the perspective of legitimacy theory is usually termed as a ‘social contract’ between the business organisation and the society as shown in the literature (e.g., Newson & Deegan, 2002; Garde-Sanchez, López-Pérez, & López-Hernández, 2018). Moreover, legitimacy can also be explained as a perception or judgement of an organisation that society develops (Bitektine, 2011; Bitektine & Haack, 2015). Suchman (1995) suggests that in order for a society to experience the organisation as legitimate the organisation has to be able to prevent events that can harm their legitimacy. Lindblom (1993) identifies four legitimation strategies for an organisation to prevent events like these: educating its stakeholders, change the stakeholders’ perceptions of the issue, distract the attention from the issue of concern or seek to change external expectations about its performance. Pollock and Rindova (2003) state that legitimacy influences how organisations behave and affect their performance and survival. It is well recognised in the literature that business organisations seek to gain legitimacy in the eyes of the society in which they operate by responding to various obligations and expectations from the society (e.g., Cormier & Gordon, 2001; Branco & Rodrigues, 2008). Parsa et al. (2021) reveal that the Chinese government utilises social organisations and social intermediaries to facilitate and mediate CSR and its reporting to meet changing societal expectations across different region, at the same time ensuring that businesses remain responsive to the expectations of international stakeholders. They find that CSR and its reporting help businesses gain political legitimacy in China.

The legitimacy theory can be divided into two sub-theories consisting of the institutional legitimacy theory and the strategic legitimacy theory (Tilling, 2010). The institutional legitimacy theory has a macro-level perspective and it deals with how the legitimisation of concepts as capitalism or the existence of governments and how these gain acceptance from society. The strategic legitimacy theory, however, has an organisational perspective and focuses on the surrounding environment of the organisation (Kaplan & Ruland, 1991). Kaplan and Ruland (1991) explain the concept of strategic legitimacy by saying that: “Underlying organizational legitimacy is a process, legitimation, by which an organization seeks approval (or avoidance of sanction) from groups in society” (p.370). Therefore, legitimacy can be seen as a resource that is vital for business organisations and banks to continue their operations.

Extent sustainable development research explores different motivations and benefits for a bank's engagement in social and environmental initiatives. One of the motivations for a bank's engagement in CSR and sustainability initiatives (such as the EPs) is the bank's desire to maintain legitimacy. Legitimacy theory is the most widely used theory that has so far offered insights in explaining the changing levels of social and environmental engagement behaviours of a business organisation. Legitimacy theory, derived from the political economy paradigm, provides a view that the interrelationship between a firm and the related social expectations is simply a fact of social like. Based on this theory, it is argued that the survival of a business such as a bank depends on market forces and stakeholders' expectations, and therefore an understanding of the broader concerns of stakeholders expressed in sustainability expectations becomes a necessary precondition for a business' survival. The theory focuses on the assumption that a business must retain its social role by responding to stakeholders and society's needs and giving society (including the public and the environment) what it requires. According to Schepers (2011), because the EPs are an internal self-regulatory mechanism, the integration of the EPs mechanisms within each bank become critical in ensuring that the EPs maintain moral legitimacy.

No doubt, according to the existing literature, legitimacy theory is probably one of the most popular theories used to explain the motivation behind banks' CSR initiatives and disclosure practices. This theory is basically based on the premise that banks would signal their legitimacy by making adequate disclosures of their activities. Strictly speaking, legitimacy theory is not separated from stakeholder theory in many aspects. Instead, these two theories are overlapping and complementary under the political economy norms. Accordingly, legitimacy theory seeks to explain the motivations by banks to narrow any perceived legitimacy gap as an effort to avoid sanctions or threats to their operation and survival. Legitimacy theory suggests that banks operate in society via an expressed or implied social contract upon which survival and development are dependent. Prior studies have documented that, for example, disclosure of CSR initiatives and commitments positively correlate with organisational legitimacy (e.g., Tilling, 2010; Wilmhurst & Frost, 2000). It is also suggested that the sustainable development and social support provided for the organisation is defined as legitimacy in organisational studies and the concept emerges from the conformity or congruence of an organisation to the social norms or laws (Deephouse & Suchman, 2008; Derakhshan, Mancini, & Turner, 2019).

3.4.2 Institutional theory

Institutional theory has also been widely adopted as a conceptual framework for explaining the motivations beyond firms' engagement in CSR and the adoption of the EPs by financial institutions (Wright & Rwabizambuga, 2006; Campbell, 2007). Institutional theory presents a framework that can be adopted to interpret how a business gradually responds to a combination of pressures from a variety of actors within its institutional context by meeting on a set of homogeneous business practices and behaviours (DiMaggio & Powell, 1983; Zorzini, Hendry, Huq, & Stevenson, 2015). The potential of applying institutional theory to explain the operations, voluntary actions and initiatives of banks has been well identified in the literature (e.g., Mohamed & Salah, 2016; Weber, 2017; Oliveira, Azevedo, & Silva, 2019).

According to Campbell (2007), the institutional theory of CSR consists of a series of propositions specifying the conditions under which companies are likely to behave in socially responsible ways. The relationship between basic economic conditions and corporate behaviour is mediated by several institutional conditions: public and private regulation, the presence of non-governmental and other independent organisations that take the role of monitoring firm behaviours, developing institutionalised norms concerning widely accepted firm behaviour as good practices, and overseeing firm engagements with their stakeholders. Carpenter and Feroz (2001) highlight that "institutional theory views organisations as operating within a social framework of norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behaviour" (p.565).

Basically, an institutional theory is premised on the notion that in highly institutional environments, organisational structures are shaped and operations are driven by responses to formal pressure from other organisations (or external authorities and regulatory bodies) or by conformity to normative standards established by external institutions (Suchman, 1995; Carpenter & Feroz, 2001; Campbell, 2007). These external institutions specify rules, procedures, and structures for organisations as a condition of conferring organisational legitimacy. In this way, institutional theory and legitimacy theory are closely related.

The association of institutional theory and legitimacy theory and the impact each other have been noted in prior literature. For instance, Unerman and Bennett (2004) document that “any organisation which failed (at a minimum) to follow innovative practices and procedures adopted by other organisations in [the] same sector would risk losing legitimacy in relation to the rest of the sector" (p. 692). CSR and sustainability reporting could be one of these innovative practices that help firms to maintain and enhance their corporate legitimacy. Therefore, an institutional theory could be a promising avenue to explore how the boundaries between corporations and society are constructed in different ways and improve the understanding of the effectiveness of CSR within the wider institutional field of economic governance (Brammer, Jackson, & Matten, 2012). Deegan (2009) believes that “a company could be coerced into adopting its existing voluntary corporate reporting practices ... to bring them into line with the expectations and demands of its powerful stakeholders (while possibly ignoring the expectations of less powerful stakeholders). Because these powerful stakeholders might have similar expectations of other organisations as well, there will tend to be conformity in the practices being adopted by different organisations - institutional practices will tend towards some form of uniformity” (p.360).

In sum, institutional theory is a well-established theory in the areas of corporate strategy, management accounting, social and organisational change, and political science (Gray, Owen, & Adams, 2010). It is inherently capable of helping explain CSR practices and performance by firms (Campbell, 2007). Prior literature has used institutional theory to explain CSR practices (e.g., Rahaman, Lawrence, & Roper, 2004; Bansal, 2005; Campbell, 2007; Amran & Siti-Nabiha, 2009; Berrone & Gomez-Mejia, 2009; de Grosbois, 2016; Font, Bonilla-Priego, & Kantenbacher, 2019).

3.4.3 Stakeholder theory

The impacts of a business organisation on its stakeholders were addressed by Freeman (1984) with the proposal of using stakeholder theory. Donaldson and

Preston (1995) explain that a business organisation's stakeholders are those who are motivated by different interests to participate in the activities of the business organisation. Accordingly, it is very important to identify the different levels of stakeholder engagements with a business organisation and its activities. Some stakeholders such as employees and managers are directly involved in the organisation's productive activities, while other stakeholders such as investors, creditors, and suppliers support the organisation's activities indirectly. Maignan and Ferrell (2004) argue that the relationship a business organisation will have with its stakeholders is largely dependent on the variety of stakeholders, the definition of what is held important by these stakeholders, and the level of stakeholder's impact on the organisation's decisions. Carroll (1979) argues that for managers and business organisations to engage in being socially responsible, they need to have a basic definition of CSR, an understanding of the issues for which a social responsibility existed, and the specification of the philosophy of responsiveness to the issues (p.499).

To date, it is widely recognised that the importance of an organisation's relationship and engagement with stakeholders continues to grow and it would be impossible to ignore the interest of stakeholders in any business, and the stakeholder relationships and stakeholder engagements that organisations act are paramount to meeting stakeholder interests and subsequently the development of CSR. Indeed, pressure from the stakeholders has provided business organisations with much motivation to adopt various environmentally friendly practices and widely recognised CSR initiatives. Stakeholders' push for economic, environmental, and social sustainability expects to lead to better financial performance (Chernev & Blair, 2015).

Presently, the notion that business organisations such as banks have a responsibility to various stakeholders continues to uphold the debate between those who consider CSR as a distraction to the business from meeting their economic objectives (such as profits and market value maximisation) and those who believe CSR as providing access and legitimacy to the business organisation within a society. The latter addresses the stakeholder perspective that acknowledges integrations between a business organisation and the society that the business is associated, rather than separate entities (Wood, 1991). Clearly, supporters of stakeholder theory argue that businesses are active partners in a world of increasing scarcity and dwindling resources within an environment with potential complexities (such as trade wars, Brexit, global warming concerns, and the coronavirus pandemic etc.).

Given the importance of stakeholders, it is imperative for a business organisation to actively engage with its stakeholders. Rodriguez-Melo and Mansouri (2011) recognise stakeholder engagement as an important issue in sustainable development, which implicates that to gain competitive advantages business organisations should embark on long-run strategic alliances that take on the CSR guidelines and closely follow public opinions. It would be interesting to know how Chinese banks have engaged with their peers and stakeholders, particularly borrowers, in project finance that has potential social and environmental implications.

Major stakeholders of a bank have been recognised to include owners/ shareholders, borrowers, depositors, regulators, and bank managers. Along with owners and managers, depositors and regulators have a direct stake in the performance of the bank. These stakeholders, called key stakeholders, possess all three stakeholder attributes identified by Mitchell, Agle and Wood (1997): Power, legitimacy, and urgency. The literature has well recognised the importance of these key stakeholders in influencing banks' operation and performance. For instance, Griffiths (2007) contends that borrowers have a legitimate claim on banks by entering in lending agreements and acquire power and urgency through their cause being adopted by other stakeholders such as consumer organisations and regulators (p.233).

3.4.4 Contingency theory

Contingency theory has been widely applied in business management and leadership, although it is multifaceted and has many implications. Fundamentally, contingency theory questions the universal applicability implied by some of the theories adopted in sustainable development and CSR such as legitimacy theory and stakeholder theory. The basic premise of contingency theory is that there is no one best approach to manage an organisation, because there are too many external and internal constraints that can alter what really the best approach to manage is in a given circumstance. Simply speaking, it all depends on the circumstance at hand as to what will be the best course of action. Contingency theory suggests that good management will look different based on situational variables including, for example, leadership style, organisational structure, participation in decision-making

(Northouse, 2007). Contingency theory can be broadly broken down into two categories: environmental contingencies and internal contingencies. Contingency theory states that a leader’s effectiveness is contingent on how well the leader's style matches a specific setting or situation (Peters, Hartke, & Pohlmann, 1985). According to Northouse (2007), this theory shifts the focus of the leader from being task-oriented to relationship-oriented.

Under contingency theory, the choice of a particular corporate competitive strategy depends on market opportunities (i.e., environmental factors) and internal organisational structures. Organisational structure should support strategy to achieve organisational goals. A strategy and structure that fit market opportunities well will drive greater economic performance. A business organisation placed in the context of a globally interactive environment is in a position to gain huge profits through an efficient distribution and organisation of its resources and effective synchronisation between its various sections/affiliates and component elements. Clearly no one standard organisational and management method can be said to the best way, instead every organisation must establish the best match between its component affiliates, elements, and environments. As a result, contingency theory is becoming increasingly relevant in today’s business context, particularly in maintaining social and environmental acceptance of business conduct and organisational integrity.

Applying contingency theory to CSR and sustainable development, it brings in the issue of strategic CSR of corporations. Even managers who wish to engage in CSR might want to take account of the contingencies extant in their internal and external environments and business task demands to make their strategic CSR supportive of their business outcomes (O'Higgins & Thevissen, 2017). This demands strategic thinking and planning around the contingencies. Barnett (2007, p.813) calls for a “contingency perspective that affirms payoffs to some forms of CSR for some firms at some points in time”. As argued by Porter and Kramer (2011), from a strategic CSR view, a corporation can positively influence its competitive position and thus improve profits by committing resources to social areas related to its core business. CSR plays an important part in corporate strategy. The prior literature has also found that the total welfare from engaging in social investments and sustainable developments by all corporations is larger for strategic CSR than for purely altruistically motivated CSR as the corporations benefit from strategic CSR motivate more than firms invest in CSR (e.g., Husted and de Jesus Salazar, 2006). Mellahi et al. (2016) illustrate that strategic CSR leads to greater efficacy because target social issues compatible with their business objectives, thereby uniting social wellbeing and firms' profit maximisation.

3.4.5 Greenwashing

Greenwashing[24] is a phenomenon that is widely recognised in the social and environmental reporting literature where the term greenwashing is connected with companies that make claims about their environmental performance. Greenwashing has been defined as the practice of making unsubstantiated or misleading claims about a firm's environmental impact (Berrone, Fosfuri, & Gelabert, 2017). Corporate social and environmental responsibility is more and more used as a communication tool to enhance a company's image towards the public. This is largely under the umbrella of corporate social and environmental legitimacy, which has become an important part of business management research because organisations tend to be more competitive if they are successful in establishing social and environmental legitimacy (Berrone et al., 2017).

The concept of greenwashing can be categorised into two levels. The first one is the firm-level greenwashing where a company attempts to give the public a picture of the company's social and environmental performance that is not completely true or even false. The second one is the product/service-level greenwashing that a company gives false information about the environmental benefits of its products/services. In the case of banks, this is referred to as loans offered.

It can be difficult for stakeholders to get enough information about social and environmental footprints of various organisations to evaluate if the organisations' environmental and social statements are accurate, causing an information asymmetry (Berrone et al., 2017). Corporate social and environmental disclosure

[24] Originally, the term greenwashing came from the environmentalist Jay Westerveld's essay about the hotel industry. Westerveld notices that the hotel industry usually has a "save-the-towel" project, which asked guests to put the towel back on its place if it was to be reused. Westerveld claimed that it was merely a way for the hotels to cut down on laundry costs while the hotels claimed that it was an initiative to act for the environment. The term greenwashing is now generally an illusion that a company creates when stating that they are doing good towards the environment when they actually do not or even do the opposite.

and sustainability reporting can be used by organisations as a greenwashing tool, which gives companies a marketing advantage.

In relation to market reactions to a firm's greenwashing, the literature has provided mixed evidence. For example, Du (2015) provides a study investigating how markets react to greenwashing shows that markets are more prone to rely on earlier impressions of the company when the environmental claims are proved wrong and that the investors are the market's trust towards the company's future statement will be damaged if these claims are followed through. Du's study also shows that the media plays a big part in making the market react on greenwashing, particularly in developing countries as the business ethics and governmental regulations are usually not as evolved as those well-developed countries.

Concerning the use of symbolic management (i.e., greenwashing), banks aim to positively influence stakeholders' perceptions of the bank and its services, engaging in apparent actions that lead key stakeholders to believe that the banks are committed to societal requirements. The objective, therefore, is to portray the bank as a socially responsible, independently of whether it really is or not, creating an appearance of concern that does not translate into actual performance (Cho, Guidry, Hageman, & Patten, 2012). In the literature, this symbolic approach can be traced back to "the ceremonial conformity" explained by Meyer and Rowan in 1977, which consists of adopting "certain highly visible and salient practices that are consistent with social expectations while leaving essential machinery of the organization intact" (Ashforth & Gibbs, 1990, p.181).

Concerning the case of the EPs adoptions being used for greenwashing, Wright and Rwabizambuga (2006) reveal that financial institutions that adopted the EPs aim to strengthen their corporate reputation. A study by Scholtens and Dam (2007) finds that financial institutions adopted the EPs to signal that they are more environmentally and socially responsible. They also show that adopting EPs positively affects the CSR measures of those financial institutions that have adopted the EPs.

In most developed countries, an awareness of social and environmental issues is well established. The legislation systems, corporate governance, and institutional capacity are designed to protect society and the natural environment. Following on this, it can argue that adopting the EPs is a form of window-dressing or greenwashing because the whole banks have already addressed social and environmental concerns due to external pressures and internal awareness. In contrast, in developing countries, both the awareness to and regulation of social and environmental issue are not as well established as in developed economies (Dögl & Behnam, 2015). Given this situation, it can assume that adopting the EPs by banks in developing countries is a strategic choice which is expected to require costly investments and to change the adopter's operations and performance (Finger et al., 2018).

In sum, the growing diffusion of the EPs adoption has fostered the development of studies based on the idea of substantive and symbolic environmental management by the financial institutions. Whether the EPs adoption and its implementation initiative are used under a substantive or symbolic approach is still an open question.

3.5 The role of banks in sustainable finance

The role of banks in sustainable development is closely associated with the concept of sustainable finance. The concept of sustainable finance originates from research on corporate social and environmental responsibility. Back to the 1950s, CSR was proposed. Bowen (1953) first suggested that besides being responsible to shareholders, an enterprise also should bear social responsibility. Following on this, scholars have argued that financial institutions also require to undertake social responsibility (e.g., King & Levine, 1993; Harvey, 1995; Levine, 1997, Viganò & Nicolai, 2009; Eisenbach et al., 2014; Kaufer, 2014; Weber, 2015; Contreras et al., 2019). It has been argued that a perfect financial system could promote efficient allocation of capital and provide financial resources to competitive and innovative industries (King & Levine, 1993; Levine, 1997; Jeucken & Bouma, 1999; Richardson, 2005; Kaufer, 2014; Weber, 2015). Therefore, the concept of sustainable finance combines the function of resources allocation and environmental and social responsibility so that financial organisations such as commercial banks can implement differentiated lending and finance policies to encourage environmental protection. Although researchers still assume different ideas about if it is economically beneficial for corporations to endure social and environmental responsibilities (Salzmann, 2013), financial institutions that implement credit and financing decisions without incorporating sustainability criteria and environmental and social risks of their clients are likely to suffer losses (Weber, Scholz, & Michalik, 2010). As a result, researchers have started to investigate green finance, ethical banking, green credit and sustainable finance issues to promote financial institutions' role in controlling social and environmental risks (e.g., Harvey, 1995; Weber, 2015; Wang & Zhi, 2016; Contreras et al., 2019; Liu, Wang, & Cai, 2019).

Sustainable finance is determined by the social and environmental impacts of projects financed provided by financial institutions. Banks' project finance has traditionally represented the most visible and tangible environmental and social impact of the financial services sector because it is mostly associated with the financing of large, complex environmentally and socially sensitive projects in developing economies (e.g., projects of dams, power stations, mines, oil and gas pipelines, and infrastructures) (O'Sullivan & O'Dwyer, 2015). Over the past decade, project finance has become almost equally widespread in many less developed countries as a facilitator of economic growth and the importance of project finance from the private sectors has been increasingly recognised (Kleimeier & Versteeg, 2010). This is evidenced in particular in financing the energy sector (Barroco & Herrera, 2019; Ragosa & Warren, 2019). In developing countries, economic developments have increasingly relied on large project finance. China's one-belt-one-road initiatives have attempted to promote large project finance in developing countries (Liu, 2018; Saud, Chen, Haseeb, & Sumayya, 2020). It is expected that Chinese banks, particularly state-owned banks will play a key role in providing project finance under the initiatives. Such project finance clearly will have huge social and environmental implications to the borrowers as well as the banks involved.

Green investment is a way for banks to promote sustainable development (Aizawa & Yang, 2010; Bahl, 2012; Ziolo, Pawlaczyk, & Sawicki, 2019). There has been a growing awareness of social, environmental and sustainability risks in project finance and large investment that financial institutions are exposed (e.g., Lawrence & Thomas, 2004; Nandy & Lodh, 2012; Zeidan, Boechat, & Fleur., 2015). It is important for the financial institutions to improve their risk management capability and corporate governance so that exposure to risks can be mitigated.

Wu and Shen (2013) analyse 162 banks from 22 countries to investigate the driving motives of CSR find the motives are very much intertwined between strategic choices, altruism and greenwashing. For instance, for banks with the motivation of altruism, banks conduct their social sustainability activities for their benefit, thereby negatively affecting banks' financial performance. However, those banks with a strategic motive enhance their financial performance through CSR engagements while banks with greenwashing motives attempt to improve the corporate image without significantly changing the business behaviours. Cornett et al. (2014) find that in the United States the largest banks consistently have high social sustainability strengths and social sustainability concerns, before the sub-prime crisis of 2008. They show that banks with larger asset size are more active in environmental, social and governance disclosure. This is probably because environmental and social activities incur costs to the banks and larger banks have relatively more resources to engage in and report these activities to stakeholders. It has been argued that economies of scale play an important role in environmental, social and governance engagement and reporting as it generally reduces the cost proportionately with respect to the size of banks (Brooks & Oikonomou, 2018; Ortas, Gallego-Álvarez, & Álvarez, 2019). Investment into ESG activities is largely considered as a long-term investment with no immediate payback in the short-term. Overall, sustainable finance as a concept and aim is much broader, and EPs are a specific action that banks need to take to achieve sustainable finance. EPs are an indicator to measure a financial institution in fulfilling its environmental responsibility in its project finance.

3.6 Banks and the Equator Principles

As explained in Chapter 2, the EPs are a suite of environmental and social risk management guidelines for commercial banks' project finance and represents one of the most significant social accountability initiatives in the past decades to have emerged within financial markets (O'Sullivan & O'Dwyer, 2015). This section reviews previous studies on banks and the EPs.

3.6.1 The motivations of banks to adopt the EPs

As the EPs framework is relatively a new topic, previous empirical research on the EPs is rather limited. Only a few studies are related to the motivation of financial institutions to adopt the EPs, including, for example, Hanson (2006), Wright and Rwabizambuga (2006), Scholtens and Dam (2007), and Chih et al. (2010). Wright and Rwabizambuga (2006) reveal that banks adopted the EPs to strengthen their corporate reputation. The similar findings are also shown in Scholtens and Dam (2007), suggesting that financial institutions adopted the EPs to signal their more environmentally and socially responsible.

Academic researchers have suggested that the EPs help to resolve some of the problems of organisational legitimacy because the voluntary nature helps maintain good relationships with relevant publics and stakeholders involved in large project finance. Suchman (1995) defines legitimacy as the "generalized perception or assumption that the actions of an entity are desirable, proper or appropriate" within a social system (p. 574). Clearly, this definition supports the focus on both the adoption of practices or policies that can influence the societal appraisal and reporting as a means to change this perception, thus increasing or decreasing a financial institution' legitimacy. Based on this perspective, EPs adopting takes on an important role in the process of legitimacy acquisition because this may be useful to increase the stakeholders' knowledge about the EPs adopting financial institution's activities and results achieved. Of course, while voluntary EPs adoptions are growing, controversy has arisen in the literature as to the merits of such behaviour of adopting and the consequences. The actual debate traces back to the double-edged sword of organisational legitimacy (Ashforth & Gibbs, 1990): Substantive management and symbolic management.

Through an interview study, Macve and Chen (2010) find that banks perceive the EPs as a successful initiative precisely due to the reason that they are voluntary. This is because business organisations can make voluntary programmes work by fostering their adoption and thereby prevent mandatory rules and regulations, the EPs adopting financial institutions may choose to pressure their peers to adopt the EPs as well.

3.6.2 The effect of adopting the EPs on financial institutions

Prior literature has analysed the effect of adopting the EPs on financial institutions (including corporate behaviours and performance) and the overall project finance industry (e.g., Heal, 2005; Wright & Rwabizambuga, 2006; Scholtens & Dam, 2007; Macve & Chen, 2010; Conley & Williams, 2011; Wright, 2012; Eisenbach et al., 2014; Chen et al., 2018)[25].

Limited studies (including, Chen et al., 2018) present some empirical evidence on the link between the adoption of EPs and bank operational performance. Most of these studies attempted to examine the impact of the EPs with the use of interviews to analyse EPs performance from a qualitative perspective. These studies include O'Sullivan and O'Dwyer (2009 & 2015), Macve and Chen (2010), Conley and Williams (2011), and Wright (2012). The findings of these studies were mainly related to a successful implementation of a voluntary code of conduct pertaining to environmental and social risk, but "remain critical of real environmental benefits and a perceived lack of accountability" (Eisenbach et al., 2014, p.377).

Finger et al. (2018) in their study distinguish the effect of the EPs adoption on bank activity and performance between banks from developed and developing countries. They place two sets of hypotheses for each sub-sample of banks and use comparison analyses, event-study methodology and two-stage selection modelling. Finger et al. (2018) find that in developed countries the EPs adoption is associated with an increase in funding activities and the share of income from interest, while in developing countries, the EPs adoption is associated with a decrease in funding activity and the share of income from interest. The results of their study indicate that the EPs adoption is a strategic decision for banks in developing countries, and a form of greenwashing in developed countries. It would be very interesting to know if five Chinese banks that have adopted the EPs were taking a strategic decision in deciding to adopt the EPs as China is within the group of developing countries.

Because environmental activities of banks have been under scrutiny in many countries, the EPs provide the adopting financial institutions with a way to align their lending practices to alleviate possible mandatory regulatory threats, which can cost more to banks. On the whole, banks prefer having a voluntary rather than mandatory

[25] Unfortunately and not surprisingly, few studies have been published on the adoption of the equator principles in banks from emerging economies.

environmental protection programmes and initiatives. This is because banks can weigh the benefits of adopting voluntary codes of conduct against the costs and adopt when the benefits outweigh the costs (Scholtens & Dam, 2007). Also, the voluntary nature of the EPs allows for continuous improvement and adaptation to country, industry-wide and market needs. It has been argued that mandatory international regulation would be more complex and less flexible for continuous adaptations (Khanna & Anton, 2002).

A few studies have used quantitative methods. For example, Scholtens and Dam (2007) conduct an empirical analysis of differences between financial institutions adopting the EPs and non-adopters in terms of their social, ethical, and environmental aspects. They find that shareholders do not react to disclosures revealing that financial institutions have adopted the EPs. Chen et al. (2018) investigate whether and how the EPs adoption had bearing on the liquidity of banks that engaged in project finance from 2003 to 2010 and show that EPs financial institutions (EPFIs) generally have higher liquidity than non-EPFIs. Their study documents that bank regulations and codes positively affect bank liquidity and such positive effects are stronger for EPFIs than for non-EPFIs. Their results suggest these financial institutions that adopt the EPs hold more liquidity buffers likely because of the higher risks and costs that accompany the adoption of EPs as well as more effective bank regulations for these EP institutions as opposed to those institutions that have not adopted the EPs. They suggest that banks that plan to adopt the EPs in the future should increase their liquidity holdings after adopting the EPs and the authorities should encourage non-EPFIs to adopt the EPs so that bank regulations can increase liquidity more effectively.

Employing statistical comparisons of means as well as event studies, Scholtens and Dam (2007) investigate whether the adopters of the EPs behave in a significantly different manner concerning their social, ethical, and environmental policies than non-adopters. They find that the social, ethical, and environmental policies of those institutions that have adopted the EPs differ significantly from those of institutions that have not adopted the principles. They find that shareholders did not react negatively to the announcement of the adoption of the EPs, which was assumed to be a “greenwash” activity. Scholtens and Dam (2007) conclude that the adoption of the EPs is used to signal responsible conduct after looking into the different attributes of the institutions' social, ethical and environmental policies, the institutions' financial statements (such as balance sheet and income statement), and the financial return and risk of these institutions.

The adoption of the EPs would be expected to lead to real change in the culture of banking institutions, as argued by Conley and Williams (2011). It is possible that the change will be related to the moral and ethical sensibilities of employees and managers when they are actively engaged in CSR (Conley & Williams, 2011) because they are a signatory of the EPs with obligations to monitor the social and environmental impact of their project finance. Also, given the important role that EPs adopting financial institutions play in global project finance and their influences in the financial markets, the impact of these institutions on greening in other non-financial industries should not be negligible (Chen et al., 2018). For example, more than 60 per cent of global project finance bank loans were extended by EPs adopting financial institutions, reported by Project Finance International 2018 League Tables[26].

A few studies present no relationship between the adoption of the EPs and bank performance. For example, Scholtens and Dam (2007) find no significant increase in the shareholder value of a financial institution after the announcement of the EPs adoption. This is probably, according to the authors, project finance accounts for only a small portion of the EP adopters' total operating activities. Chih et al. (2010) also find there is no significant relationship between the EPs adoption and the financial performance of EPs adopting financial institutions.

Overall, the effect of adopting the EPs on the financial institutions requires further research due to empirical evidence is rather limited. This study, through case study and interviews, expects to provide evidence from China on the impact of the EPs adoption.

3.6.3 Challenging issues in implementing the EPs

The EPs were initially designed as a set of voluntary environmental and social risk management guidelines for project finance. Financial institutions that adopt the EPs voluntarily commit to applying environmental and social principles to the design, execution and management of project finance loans and pledge not to engage with

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26 http://www.ifre.com/?&m=0&src=http://www.ifre.com/hybrid.asp?typecode=68&pubcode=1&navcode=386

or provide finance to clients who would not comply with the Principles. Watchman (2005) criticised the EPs for not going far enough in the direction of achieving sustainable development. There are several barriers to the implementation of the EPs that have been identified in the existing literature, including lack of monitoring mechanism, lack of transparency as discussed below.

- **Lack of monitoring mechanisms**

There is a lack of effective monitoring mechanisms in implementing the EPs. This has been noted in the prior literature. Schepers (2011) argues that the effectiveness of EPs is questionable due to the pitfalls associated with the EPs monitoring mechanisms. In particular, no authorities concerned can monitor how well the EPs adopters comply with the EPs and the code. There appear some adverse selection and free-rider problems in reality. Clearly, it is very challenging to have an effective governance mechanism to monitor how well the EPs adopting financial institutions comply with the EPs in their project finance. This is largely due to the voluntary nature of the EPs framework.

- **Lack of transparency**

There is an overall lack of transparency on the practices and performance of the EPs implementations (Andrew, 2009; Kass & McCarroll, 2006). As shown in the prior literature, transparency is lacking in the sense that the EPs adopting financial institutions fail to report information concerning the disapproved project loans (Andrew, 2009). Due to the reason of keeping clients confidential, the EPs adopting financial institutions disclose little information on project finance (Kass & McCarroll, 2006). At the moment, there are no mandatory accounting requirements for banks to report on their practice and performance of the EPs implementations. It is essentially important for the EPs adopting financial institutions to raise transparency for the benefits of investors and other stakeholders. Research on the EPs points to an increasing lack of completeness and decreasing amount of credibility in the real case studies reported, as well as concerns about the overall EP adopting process and practices. EPs research has been investigated along with a variety of lines of inquiry including sustainable finance and green investment (emphasising environmental goals achieved by banks).

3.7 Research Gaps and Theoretical Framework

From the literature review of this chapter and introduction of China's institutional background, it seems there is a research gap. First, the literature has not given much attention to the adoption of the EPs by Chinese banks (e.g., Scholtens & Dam, 2007; Eisenbach et al., 2014; O'Sullivan & O'Dwyer, 2015; Contreras et al., 2019). The adoption of the EPs by a few small banks in China might have different implications comparing to many large banks that have adopted in Western developed economies. The literature has largely addressed issues and concerns raised in relation to those large financial institutions from Western developed markets (e.g., Scholtens & Dam, 2007; O'Sullivan & O'Dwyer, 2015).

Second, among those banks that have adopted the EPs in China none of them are state-owned banks. This further raises an interesting question as to why state-owned banks in China which are the dominated force in China's banking industry are not engaged in signing the EPs. Will these small banks in China that adopt the EPs change the behaviours and practices of Chinese banks in project finance by embracing more environmental assessment and monitoring and play a role in driving China's sustainable development?

Third, there is clearly an unknown question with regard to the factors that influence Chinese banks to adopt or not adopt the EPs? In particular, what are the factors that driving Chinese non-state-owned banks to adopt the EPs. Although the literature has provided some generic reasons for a bank to accept the EPs and the benefits that the bank expects to gain if it adopts the EPs (e.g., Scholtens & Dam, 2007; Eisenbach et al., 2014; O'Sullivan & O'Dwyer, 2015; Contreras et al., 2019), there is no study specifically looking into institutional factors in a country that influence the adoption. China is quite unique in its context and institutional organism covering social, cultural, political, and legal attributes as well as the interconnections of these attributes. An understanding of institutional factors and their influences on the adoptions of EPs will enhance knowledge relating to the motives behind the adoption of EPs by Chinese banks.

There are many research questions left in the literature, especially on the adoption of EPs by Chinese banks. China is the second largest economy. The influence of China on global environmental protection, climate change, reduction of carbon emission as well as sustainability should not be overlooked. For example, how were the EPs applied in China? What is the current situation of applying the EPs in the Chinese banking industry? What are the reasons that some banks have adopted, while others have not adopted? Given the purpose of research, it will mainly focus on the identification of institutional factors that influence Chinese non-state-owned banks adopting the EPs and sustainable development. The specific research aim and objectives are given in Section 1.3.

This study will adopt institutional theory and contingency theory as theoretical framework to analyse the factors that drive Chinese banks to adopt the EPs and sustainable development. In the literature, all these theories (e.g., legitimacy theory, contingency theory, institutional theory, stakeholder theory) have been adopted to consider theoretical basis for the motivations of CSR practices. These theories are interrelated, not competing, but complementary. From a multi-theoretical perspective it is possible to incorporate them to explain CSR practices and the EPs adoption.

Legitimacy theory suggests that organisations continually seek to ensure that they operate within the bounds and norms of their societies. Legitimacy theory supports organisations to implement and develop voluntary social and environmental disclosures to fulfil their social contract.[27] Stakeholder theory is a theory that accounts for multiple parties impacted by a business, like employees, suppliers, local communities, creditors, and others. Legitimacy theory is not totally detached from stakeholder theory. In many aspects these two theories are overlapping and complementary.

Contingency theory refers to an organization theory that supports the view that there is no single best way for making decisions, leading a company and organizing a corporation. The theory says that an effectiveness of management is contingent and is dependent on internal and external environments. The best decision is based on a particular situation. Contingency theory argues there is no universally appropriate

[27] The case studies of this thesis to be reported in Chapter 5 reveal that all the case banks have voluntarily reported on their CSR activities and the disclosures by these case banks of CSR were increasing over the three-year periods.

system which applies to all organisations in all circumstances. Basically, contingency theory identifies several factors that influence a decision[28].

Institutional theory is a theory on the deeper aspects of social structure. It considers the processes by which structures, become established as authoritative guidelines for social behaviour. In the literature, institutional theory has also been widely adopted as a conceptual framework for explaining the motivations of firms' engagement in CSR and the adoption of the EPs by banks. As explained in Section 3.4.3, institutional theory is premised on the notion that in highly institutional environments like China, organisational structures are shaped and operations are driven by responses to formal pressure from other organisations (in the case of China, it is mainly the government and government agencies). These external institutions such as the CBIRC describe rules, procedures, and structures for banks as a condition of conferring organisational legitimacy. This might indicate that both institutional theory and legitimacy theory are closely related.

Institutional theory and legitimacy theory complement each other when they are applied to explain CSR and sustainable development. Institutional theory considers the external pressures from external bodies (such as a government) on companies to carry out businesses. In this way, the external bodies are external stakeholders. Legitimacy theory focuses on the willingness of companies to do things in order to meet the expectations of external bodies and stakeholders. In other words, legitimacy theory is from the business perspective, while institutional theory is based on external influence perspective.

This study does not consider stakeholder theory as the applying theoretical framework. This is because Chinese culture does not fit with stakeholder theory. In China, a collectivist society, individual and corporate behaviours must follow the value of society, and externally accepted rules and ways of doing things. The role of individual stakeholders in the society is rather limited as all stakeholders need to obey the value and rules set up by the authorities. This is because Chinese culture reflecting a high-power distance always ranks stakeholders in terms of its importance

[28] As reported in Chapter 7, these factors identified in this study are under the headings of the external environment, organisational environment, clients/project borrowers' environment, and resources environment, which are influencing the EP adoption/non-adoption of Chinese banks.

or significance. The government has always been ranked the most important stakeholder.

With regard to the connections between CSR, sustainability and the EPs, it can be addressed from the perspectives of corporation, society and bank. CSR is more towards the corporate world, asking the businesses to take more responsibility by balancing economic (financial), social and environmental interests demanded from many different stakeholders. Sustainable development or sustainability is more on the consequences and the expectations from the society's perspective. It is the expectation of a society that economic development should not compromise the ability of future generations to meet their needs. In this way, a country should pay more attention to the society's economic, social and environment wellbeing and this is related to the effort of the whole society (particularly the important role of government) and it is a concept that beyond the corporate world. EPs are a risk management framework for determining, assessing and managing environmental and social risk in project financings. Introduced by the International Finance Corporation in 2003 with the support of ten financial institutions, they have since become a financial industry minimum standard for due diligence and monitoring to support responsible risk decision-making. Banks adopt the EPs to ensure that the projects they finance are developed in a socially responsible manner, reflecting sound environmental management practices, and once so adopted, undertake to provide financial services to project financings only if they meet EP criteria. In other words, the EPs are the principles developed specifically for the banking industry to link corporate level CSR and the society expectation for sustainable development. Banks play an important role in promoting sustainable development as banks as an intermediary provide finance to the corporate world and supporting infrastructure developments. Therefore, these concepts are closely related. The adoption of EPs reflects the actions taken by financial institutions to fulfil their CSR, which expects to contribute to sustainability and sustainable development. This study expects to make contributions, as presented in Section 1.4, to an understanding of the institutional factors that drive the adoption of EPs and sustainable development in China's banking industry.

3.8 Summary

The body of work that makes up the academic literature on CSR and sustainability as well as bank risk management is extensive, therefore, a full review of the previous literature in all these related areas is beyond the scope of this thesis. Instead, this chapter focuses on a few key issues that are important for this study as they provide foundations for the development of this study. This chapter has mainly reviewed the literature relating to the concept of CSR, banks in CSR engagement, theories underpinned sustainable development, banks and the EPs, and the role of banks in sustainable finance. This study has adopted institutional theory and contingency theory as the main theoretical framework. This chapter has provided a section on research gaps, which lead to some research questions that this study will focus on.

This study expects to contribute and extend the limited literature on the adoption of the EPs and its impacts on financial institutions and the financial services industry. This study examines the impact of the adoption and non-adoption of the EPs on financial institutions in terms of their CSR commitments and implementations, particularly in involving project finance. To the best of the researcher's knowledge, no study exists that analyses the adoption and non-adoption of the EPs in the Chinese banking context. The next chapter is going to describe the research methodology of this study.

Chapter 4 Research Methodology and Design

4.1 Introduction

This chapter discusses the philosophical approach of this research and explains the methodology used to investigate the CSR engagement and adoption/non-adoption of the EPs in Chinese banks. The intention is to fully detail the overall research strategy and design, as well as to provide justifications for the research method chosen.

Any research is always underpinned by appropriately considered research methodology. A research methodology is related to research philosophy and research design, which guide a researcher to undertake a scientific research process or activity with a view to achieving research objective(s). This chapter discusses the research methodology adopted for this study. Firstly, it discusses research philosophy by looking at research ontology, research epistemology, axiology as well as positivism and interpretivism. Then, it explains research methodology choice and research design by considering differences between qualitative and quantitative research, further considering the appropriateness of qualitative research through case studies and interviews for this exploratory study. While Section 4.4 justifies the use of the case study, Section 4.5 describes semi-structured interviews. Section 6 describes the overall analysis approach for this study. Given the nature of this research subject, overall this study adopts qualitative research. The final section provides a summary.

4.2 Research Philosophy and Paradigms

Research is about the generation of understanding and knowledge through systematic processes. In general, research philosophy guides the approach used to address research questions and commands the analytic methods to be employed by a researcher to investigate specific research questions. Fundamentally, business and social science research (including CSR and sustainable development research) are largely concerned with people and their decision-making, life and experience contexts, and with philosophical questions relating to the nature of knowledge and truth (epistemology), values (axiology) and being (ontology) that underpin people's judgements, behaviours and activities.

There are different interpretations of research philosophy, which can be discussed from different perspectives. For instance, one perspective concerned is to look at the aspects of ontology, epistemology and axiology adopted by a researcher. The other perspective is to consider the data used in a study. It is widely accepted that a researcher’s ontological and epistemological stance guides a study (e.g., Neuman, 2003; Bryman & Bell, 2007). Business management research differs from research in the natural sciences because business management research focuses on people (e.g., managers, employees, investors, stakeholders etc.) and their behaviours and decision-making within cultures, settings and organisations that vary considerably socially, ethically and historically. There is an unpredictability in the behaviour of human beings, and as a result, there will be different interpretations of their behaviours and decision-making process. CSR and sustainable development researchers share the common bond with all other business management disciplines that one must be aware of the philosophical assumptions related to the actual context (such as business environments, regulatory regime, and socio-political system) and the perceived relationship between theory and knowledge (Chua, 1986). In this section, the fundamental aspects of research philosophy: Research paradigm, ontology, epistemology, positivism and interpretivism, and axiology will be discussed. Such a discussion provides a foundation for the justifications of the research method to be adopted for this exploratory study.

4.2.1 Research paradigms

Research paradigms refer to fundamental beliefs that affect the ways to conduct a piece of academic research, including the design and choice of a particular research approach or technique (Creswell, 2003; Easterby-Smith, Thorpe, & Jackson, 2012). All research studies, particularly social science research like this study, are predominately based on some underlying philosophical assumptions about what constitutes 'valid' research and which research method(s) would be appropriate for the development of ‘knowledge’ or ‘theory’ in a given study (Antwi & Hamza, 2015). Also, a fundamental issue for a researcher to consider is not only related to the choice of the methodologies but related to the acknowledgement of the research paradigms, as argued by Sobh and Perry (2006).

The term 'Paradigm' that was originally from the Greek word 'paradeigma', was first used by Kuhn in 1962 to denote a conceptual framework. In general, a research paradigm provides a convenient model for examining problems and finding solutions for a researcher. Olsen, Lodwick and Dunlap (1992) consider that “paradigm” implies a pattern, structure, framework or system of scientific ideas, values and assumptions, which reflect in the implementation of the research process.

Under the regime of the research paradigm, there are usually two contrasting research exemplars: positivism and interpretivism (Neuman, 2003; Bryman & Bell, 2007; Saunders, Lewis, & Thornhill, 2012). Positivist research often starts with a thorough review of prior literature or theory, followed by a period of data collection, hypotheses are then developed and tested, and finally, the findings lead to the revision of the theory. Positivist research can be said to be the process of collecting data and testing generalisable propositions to verify factual information (Bryman & Bell, 2007). Further, the positivist research paradigm underpins quantitative methodology. The objectivist ontology and empiricist epistemology need suitable objective research methodology, in which the measuring variables and testing hypotheses are associated with general causal explanations (Sarantakos, 2005). Basically, positivist research focuses on collecting and gathering hard data in the form of numbers to observe the changes and summarise evidence. The data collection techniques focus on gathering hard data to enable evidence to be presented in the quantitative form.

By contrast, qualitative methodology is underpinned by interpretivist epistemology and constructionist ontology (Creswell, 2003). This methodology explains an event, an activity, or behaviour through people’s experiences. People are participants, insiders, or those who could be external stakeholders. Merriman (1998) states that qualitative methodology assumes that meaning is embedded in the participants' experiences and that this meaning is mediated through the researcher's perceptions. In general, the researcher who uses qualitative methodology often places themselves into the event (such as participating in the given activities, interviewing key insiders and stakeholders, taking case studies, and analysing related documents) to observe participants in order to generate research findings and results. It is believed by the users of qualitative methodology that reality is multifaceted and complex, which can only be understood through the researcher's observation, participation, and experience (Yauch & Steudel, 2003; Wolcott, 2009; Tuffour, 2017).

As a whole, the research process involved in a study has three major dimensions: ontology, epistemology, and methodology (Strauss & Corbin, 2008), and research paradigm includes all these three dimensions (Cohen, Manion, & Morrison, 2007), which will be discussed later in this chapter. Research paradigm can be regarded as the "basic belief system or worldview that guides the investigator" (Guba & Lincoln, 1994). The research method textbooks have well explained these three dimensions (e.g., Neuman, 2003; Merriam, 2009; Kumar, 2011; Saunders et al., 2012).

4.2.2 Ontology

The word "ontology" is generally defined as follows: 1) The branch of metaphysics dealing with the nature of being; 2) A set of concepts and categories in a subject area or domain that shows their properties and the relations between them (https://www.lexico.com/en/definition/ontology). Blaikie (2000) states that ontology can be defined as "the science or study of being" and how people recognise the nature of reality. In other words, ontology can also be regarded as a system of belief that helps an individual reflect on what constitutes a fact (Antwi & Hamza, 2015; Saunders et al., 2012). The ontology is "reality", which can be more specifically explained as a systematic account of existence (Gruber, 1995). In other words, ontology can explain the form and nature of reality. It refers to a branch of philosophy concerned with expressing the nature and structure of the world (Wand & Weber, 1993) and can be divided into two branches: objectivism and constructionism.

Objectivism considers that there is an independent reality. This paradigm of exploring social reality is constructed on the philosophical ideas of August Comte[29], who is a famous French Philosopher. Positivists present that reality is objectively given and it is independent of the researcher. Positivists also assume that reality is measurable, and positivistic scholars adopt scientific methods and schematise the knowledge generation process with the help of quantification to improve accuracy in the

[29] For details about Auguste Comte and positivism, see https://plato.stanford.edu/entries/comte/#Bio.

description of parameters and the relationship among them (Antwi & Hamza, 2015). Constructivism stresses that knowledge emerges through the individuals' interaction with the environment in the course of experience. In other words, social and business reality is a human construct. Constructionism is usually understood to be an overarching label for qualitative studies that focus on how social and business realities are constructed (Merriam, 2009). Constructionism and interpretivism share much common (Schwandt, 2003; Andrews, 2012). In general, interpretivism is a constructionist approach that focuses on individuals' experiences and the meanings individuals attach to such an experience.

Interpretive researchers consider that reality comprises of individual's subjective experiences of the whole world; therefore, the reality is socially created (Mutch, 2005). In other words, reality is a human construct. Interpretive paradigm is reinforced by observation and interpretation, thus to observe is to collect information about events, while to interpret is to translate the information by diagram inferences or by adjudicating the match between the information and some abstract shapes. Overall, the interpretive paradigm is concerned with exploring the world as it is from the subjective experiences of individuals (Guba & Lincoln, 1994; Antwi & Hamza, 2015).

Under the interpretive tradition, there are no correct or incorrect theories. Instead, theories should be judged through "how interesting they are to the researcher" as well as those involved in the same areas (such as cases, behaviours, decisions, policies). Interpretive researchers consider that reality consists of human being's subjective experiences of the external world, therefore, the reality is socially constructed (Mutch, 2005). In this study, the interpretive paradigm is adopted given the banks' adoption of the EPs are largely influenced by "social" reality (including banking regulations, government policies, social culture, bank characteristics including ownership and size, etc.).

In sum, ontology is concerned with a major question: whether the nature of reality should be known as subjective or objective. Therefore, two important aspects of ontology – positivism and interpretivism appeared in the research world. Table 4.1 shows the detailed differences between positivism and interpretivism. The ontological assumption of the positivist is that the external environment determines and constrains social reality and the axiological assumption is that the process of research is value-free (Saunders et al., 2012).

Table 4.1: Differences between positivism and interpretivism

Assumptions	**Positivism**	**Interpretivism**
Nature of reality	Objective	Subjective
Goal of research	Try to explain things and predict future	Try to understand things and always with weak prediction
Focus of interest	Try to find out the general regulation	Try to find out the specific point
Knowledge generated	Absolute	Relative
Relationship between researchers and their subjects	Separation	Participative
Desired information	How many people think and what is the specific thing	What some people think and what kind of problems they have and how they deal with them

4.2.3 Epistemology

While ontology deals with the sets of philosophical questions about “what is reality”, epistemology considers a philosophical question of “how do we understand reality”. In other words, epistemology focuses on potentials, nature, sources, and limitations of knowledge in the field of study (Hallebone & Priest, 2009). There are two broad epistemological positions, which are paralleling to ontological positions of objectivism and constructionism (or constructivism): positivism and interpretivism. Epistemology is usually defined as the nature of a clarification: what kind of methodology will be used, what valid structure it is necessary to have, what evidence is needed, or how to answer the question ‘why our knowledge is knowledge’ (Craib, 1992; Roos, 2005; Boon & Van Baalen, 2019).

Neuman (2003) explains that positivism sees social science as an organised method for uniting deductive logic with exact experiential observations of an individual’s behaviour in order to learn and confirm a set of probabilistic causal laws, which can be used to forecast general models of human and organisational activities and behaviours. On the other hand, interpretivists think that the world is constructed, interpreted, and experienced by people in their contacts with each other and with broader social systems (Guba & Lincoln, 1994; Merriam, 2009). In this study, for example, socially structured banks decide on adopting or not adopting the EPs and how much to contribute to support sustainable developments for an economy.

4.2.4 Axiology

Axiology is engaged with an assessment of the role of a researcher's value on all stages of the research process. Axiology considers 'why people want to do their research'. Axiology attempts to explain if people are trying to seek or understand the world (Lee & Lings, 2008). Axiology is important for a piece of research because an individual's value may affect how the research is conducted and what does an individual's value in the research finding (Mertens, 2010).

Axiology mainly refers to the aims of the research, attempting to clarify if a researcher is trying to explain or predict the world, or only seeking to understand it (Sarantakos, 2005; Saunders et al., 2012). Axiology focuses on what does the researcher value in his/her research (Mertens, 2010). This is a very important aspect of research philosophy as the researcher's value affects how a researcher conducts his/her research and what does a researcher value in his/her research findings (Lee & Lings, 2008). For this research, the researcher aims to understand the behaviours of Chinese banks in considering the EPs and promoting sustainable developments.

4.3 Research Methodology Choice and Design

4.3.1 Differences between quantitative and qualitative research

As explained before, research methodology can also be understood as the techniques used by the researcher to discover the reality. It is a research strategy that translates ontological and epistemological principles into guidelines that show how a piece of research is to be conducted (Sarantakos, 2005; Saunders et al., 2012). Research methodology can be divided into two different categories of methodologies in terms of types of data used for research (i.e., quantitative and qualitative research). These two data-based methodologies are always used on different models of research with different epistemologies and different structure of representation (Denzin & Lincoln, 2000).

Kumar (2011) suggests that there are three main considerations to take into account in order to decide between the choice of quantitative and qualitative research: (1) the objective of the research; (2) how the variable is measured; and (3) how the information is analysed. Quantitative methodology is underpinned by the positivist research paradigm, which was discussed in Section 4.2.

In general, one obvious difference between quantitative research and qualitative research is data. Quantitative researchers collect and analyse quantitative data (i.e. numerical data) to explore the event. By contrast, qualitative researchers use non-numerical data (e.g., words) to analyse the event. These two follow different approaches. Because quantitative research focuses on hypothesis and theory testing, thus, quantitative research follows the confirmatory and testing methods. For quantitative researchers, constructing a hypothesis is the most important stage for research and then they will collect related data to verify or dispute their hypotheses. On the other hand, qualitative research follows the exploratory and interpretative method. According to Antwi and Hamza (2015), qualitative research is used to explain what is seen nearby and sometimes to come up with or produce new hypotheses and theories. In general, a researcher uses qualitative research to explore and interpret a phenomenon that is little or do not know before (Miles, Huberman, & Saldana, 2014). This study uses qualitative research as there is little known of Chinese banks' decision as to the adoption of the EPs and its impact on sustainable development, given the fact that only five banks in China have adopted the EPs, but none of the state-owned banks has adopted. No previous studies can be found and therefore this issue is largely unknown. Therefore, qualitative research is more suitable comparing to quantitative research in addressing the research objectives explained in Chapter 1.

Another difference between quantitative research and qualitative research is about the research object. While quantitative researchers focus on one or a few relationships for their research objects, by contrast, qualitative researchers use an extensive and deep-angle lens, investigating human selection and behaviour as it repeats obviously in all of its detail (Antwi & Hamza, 2015). In other words, researchers of qualitative studies try to understand multiple relationships for an event or behaviour for a given environment or the changing of actions under the changing settings and assumptions. This is very much the situation relating to the adoption of the EPs by financial institutions as the adoption involves multiple relationships which are heavily influenced by the changing environments. Corbetta (2003) provides an excellent comparison between quantitative and qualitative research, as given in Table 4.2 below.

Table 4.2: A comparison between quantitative and qualitative research

	Quantitative research	**Qualitative research**
Research planning		
Theory-research relationship	Structured; Logically Sequential phases Deduction (theory precedes observation)	Open, interactive Induction (theory emerges from observation)
Function of the literature	Fundamental in defining theory and hypotheses	Auxiliary
Concepts	Operationalized	Orientative, open, under construction
Relationship with environment	Manipulative approach	Naturalistic approach
Psychological researcher subject interaction	Neutral, detached, scientific observation	Empathetic identification with the perspective of the subject studied
Physical researcher-subject interaction	Distance, detachment	Proximity, contact
Role of subject studied	Passive	Active
Data collection		
Research design	Structured, closed, precedes research	Unstructured, open, constructed in the course of research
Representativeness	Statistically representative sample	Single cases not statistically representative
Recording instrument	Standardized for all subject	Varies according to subjects' interests
Nature of the data	Objective and standardized	Rich and deep

Data analysis		
Object of the analysis	The variable (analysis by variables, impersonal)	The individual (analysis by subjects)
Aim of the analysis	Explain variation in variables	Understand the subjects
Mathematical and statistical techniques	Used intensely	Not used
Production of results		
Data presentation	Tables (relationship perspective)	Extracts from interviews and text (narrative perspective)
Generalizations	Correlations, Causal models, Laws, Logic of causation	Classifications and typologies, Ideal types, Logic of classification
Scope of results	Generalizability	Specificity

Source: Corbetta (2003), p. 40

4.3.2 Research designs

Research design is the blueprint for the collection, measurement and analysis of data (Phillips, 1971). As an important part of the research process, a research design is the plan and structure of investigation so convinced as to obtain answers to research questions (Kerlinger, 1986). There are several factors to consider in designing a piece of research. Fundamentally, the design of the research should be relevant to the underlying research problem. In this study the research problem is related to the adoption of the EPs by banks and the impact of the adoption on sustainable development, more specifically focusing on the Chinese banking industry.

According to Crotty (1998), in designing research, four elements should be considered by the researcher, including epistemology, theoretical perspectives, methodology and methods. As discussed in the previous section, epistemology is inherent in the theoretical perspective and therefore the methodology that has been chosen. Epistemology is the “theory of knowledge that is embedded in the theoretical perspective” (Creswell, 2003, p.4). For this study, the theoretical perspective chosen is constructivism, which represents the philosophical stance of the interpretive paradigm underpinning the selected methodology, which in turn frames the research questions. As the methodology shapes the plan of action in research (Crotty, 1998), this study will use case studies and interviews to provide the researcher with qualitative data to obtain an understanding of Chinese banks’ behaviour towards the EPs and sustainable development.

From the research methodological perspective, the researchers are generally “bound within a set of epistemological and ontological premises which – regardless of ultimate truth or falsity – become partially self-validating” (Bateson, 1972, p.314). Accordingly, the initial aim of research design should concern how the study is shaped and why is shaped by social constructivism. In the research methodology literature, this sort of research design of social constructivism is also named as the interpretive paradigm (e.g., Denzin & Lincoln, 2000; Mertens, 2010). The interpretive paradigm assumes that as individuals interact with the real world around them they create and associate subjective meanings to them. Hence, the researcher tries to understand the phenomenon in question through interpretation by accessing the meanings participants assign to the identified/specific phenomenon in question. There are many approaches that can be used to achieve this. In particular, the use of interviews and case studies will allow an in-depth investigation and interaction with respondents and insiders of decision-making concerning the adoption of the EPs.

The value of qualitative research methodologies is increasingly being recognised within the broad field of CSR and sustainable development research. Unlike quantitative research, qualitative research can offer insights into the question of “why” people or organisations engage in particular actions, decisions or behaviours. However, for the potential of this research to be fully realised within banks’ sustainable development and the adoption of the EPs, appropriate consideration of methodological issues surrounding qualitative research methodologies in interviews and case studies is needed. It is anticipated that the popularity of qualitative research continues to rise as it provides a mechanism through which the richness of banks’ CSR engagements and activities can be explored and leveraged into sustainable development or social and environmentally friendly financial institutions research.

4.4 Case Studies

In this study, a case study is adopted as the primary research method. The case study method is suitable as it allows for a thorough examination of this complex, real-life issue on which little prior empirical evidence is available on the adoption of the EPs in China, leading to new, in-depth insights (Eisenhardt, 1989; Yin, 2009).

Case studies as a research method have been widely used in CSR and business studies (e.g., Harvey, 1995; Linthicum et al., 2010; Dieleman & Boddewyn, 2012; Kaufer, 2014; Harrison, 2019). In general, a case study assumes that “social reality” is created through social interactions, albeit placed in specific settings, frameworks and histories, and seeks to identify and describe interactions before trying to analyse and theorise (Ritchie & Lewis, 2003). The specific qualities of a case study research have enabled the advancement of theory in relevant areas by revealing rich insight into the context-specific phenomena. As noted in the previous literature, the strength of a case study is that it can take an example of an activity – ‘an instance in action’ (e.g., Walker, 1974) – and use multiple methods and data sources to explore it and interrogate it, eventually resulting in theory building (Eisenhardt, 1989; Dubois & Gadde, 2002; Eisenhardt & Graebner, 2007). Thus, “it can achieve a ‘rich description’ (Geertz, 1973) of a phenomenon in order to represent it from the participants’ perspective” (Stark & Torrance, 2005, p.33).

A case study is not easily summarised as a single and coherent form of research. Instead, it is an approach to research that can be interpreted with different streams (Stake, 1995; Yin, 2009). The essence of a case study is the explanation of a decision, its implementation and result. As explained by Dubois and Gadde (2002), case studies can be used for theory-building by employing in-depth insights of empirical phenomena and their contexts, allowing for direction and redirection in order to find the proper match between reality and theory. A case study as a research method has grown significantly in reputation as an effective methodology to study and investigate complex issues in real business and world settings (Bruhn, 2019). It is argued that a case study can be a robust research method particularly when a holistic, in-depth investigation is needed (e.g., Dubois & Gadde, 2002; Gulsecen & Kubat, 2006; Yin, 2009). One of the reasons for the recognition of a case study as an effective research method is that the researcher is increasingly becoming more concerned about the limitations of quantitative methods in providing holistic and in-depth explanations of corporate behaviours and management decision-making. Through case studies, a researcher will be able to go beyond the quantitative statistical results and understand the behavioural conditions through an actor's perspective and the business' operation and practices.

Yin (2009, p. 23) defines the case study research method as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used". In fact, the case study method enables a researcher to closely study the actual data within a specific context. In most cases, a case study researcher will select a small number of individual cases as the subjects of study. In this study, three case banks will be chosen as the subjects of analysis with a view to analysing the adoption of the EPs and sustainable development in China's banking. As observed by Tellis (1997), a case study helps explain both the process and outcome of a phenomenon through complete observation, reconstruction and analysis of the cases under study.

For the use of the case study research method, it is important to consider the proper design of a case study. The researcher can adopt a single-case or multiple-case design, which is subject to the issue and subject of study in question. In this study, the multiple-case design is adopted, including three banks. Particularly, in cases where there are no other cases available for replication, the researcher only can adopt the single-case design. Certainly, the drawback of the single-case design is its inability to provide a generalising of applying a conclusion, in particular when the events and cases are rare. The multiple-case study design, on the other hand, will be more effective when it is used in real-life events that present numerous sources of evidence through replication rather than sampling logic. It is quite clear, regardless of the single-case design or multiple-case study design, the generalisation of results from any case studies stems on theory rather than on populations (Yin, 2009). As explained by Campbell (1975), by replicating the case through pattern-matching, a technique linking several pieces of information from the same case to some theoretical propositions, the multiple-case design enhances and supports better the findings and empirical results, which helps raise the level of confidence in the robustness of the method. Based on this reason, this study adopts the multiple-case design.

There are several categories of a case study, including exploratory, descriptive and explanatory case studies (Yin, 2009). While exploratory case studies aim to explore any phenomenon in the data which serves as a point of interest to the researcher, descriptive case studies set to describe the natural phenomena which occur within the data in question. For example, what strategies are used by a bank in dealing with the social and environmental impact of a loan provided by the bank. The goal set by the researcher is to describe the data as they occur. It has been suggested that descriptive case studies could be in a narrative form (McDonough & McDonough, 1997). In applying the descriptive case study method, the challenge for the researcher is that he or she must begin with a descriptive theory to support the description of the phenomenon or case. If this does not succeed, there is a possibility that the description does not give a rigour analysis and such a lack of rigour could occur during the whole project (McDonough & McDonough, 1997).

With regards to an explanatory case study, it examines the data closely both at a surface and deep level to interpret the case or phenomena in the data. As explained by McDonough and McDonough (1997), based on the data, the researcher may then form a theory and set to test this theory. Yin and Moore (1987) also note that explanatory cases can also be deployed for causal studies where pattern-matching can be used to examine certain phenomena in very complex and multivariate cases. Further, Yin and Moore observe that these complex and multivariate cases can be explained by three rival theories including a knowledge-driven theory, a problem-solving theory, and a social-interaction theory. As far as knowledge-driven theory is concerned, it requires that eventual commercial products, for example, goods and marketing channels, are the results of ideas and discoveries from basic research. This is also applied to a problem-solving theory, although a problem-solving theory considers more external sources rather than from basic research. On the other hand, a social-interaction theory argues that overlapping professional network causes researchers and users to communicate frequently with each other.

The two commonly applied research methods in a case study are documentary analysis and interviews. For this study, the researcher uses both documentary analysis and interviews to investigate Chinese banks' adoption of the EPs and sustainable development. Documents include banks' annual reports, CSR/sustainability reports, files and regulatory guidance as well as interview transcripts.

More specifically, this study entails studying three cases of local private commercial banks in terms of their adoption of the EPs and the CSR engagements. Apart from some similarities (such as local banks), each bank has completely different corporate strategies and business models from the others. This calls for a deep investigation of the conditional factors of each bank in determining the adoption of the EPs.

Overall, the case study method is adopted for this exploratory research on the grounds that it can facilitate the development of a deeper understanding of the role of different factors and controls and their impact upon the EPs adoption of a financial organisation. The literature (e.g., Berry, Loughton, & Otley, 1991; Otley & Berry, 1994) has well explained that case studies are particularly useful for exploratory research, where an inductive approach can be adopted, using theory to explain empirical observations (in this study, for example, only five private commercial banks adopting the EPs in China) and also inform refinements and extension of the theory. Researchers have also explicitly recognised the usefulness of case-based research in identifying the behaviours of corporate managers in decision-making. The use of case study allows an in-depth investigation and interaction with participants within the organisations who had a view on the concept of sustainable development and the EPs adoption of Chinese banks based on their professional and business management experiences.

4.5 Semi-structured Interviews

A key component of the case study research is the interview. In this study, interviews are critical because of the relative novelty of the issues being addressed (Horton, Macve, & Struyven, 2004), which left the researcher with some initial uncertainties concerning what are the most important questions to ask for interviews. Interview questions are developed out of a literature review of the areas of both CSR and sustainable development in general and the EPs in particular. The review findings form the basis of a series of semi-structured interview questions complemented by a less structured discussion. The semi-structured interview format creates flexibility that enables respondents to develop issues and “think hard” about issues that they perceive as being of particular interest and importance. This approach also facilitates the generation of supplementary questions for use in later interviews, based on key issues identified by bank managers who are familiar with the (non-)adoption of the EPs in the case banks. The interview format thus allows for a discussion of matters which have not arisen in the initial literature review.

Yin (2009) explains the interview as the cornerstone of case study research but also recognises there is a need in case study research to triangulate evidence by collecting and integrating information from a range of sources. Before interviews, as much information as possible was collected about the case banks and their CSR and sustainability practices. The sources used are both internal (e.g., internal documents) and external such as annual reports and CSR reports. This approach ensures that limited and valuable interview time is then able to be used more effectively for discussion and clarification rather than straightforward fact-finding that can be achieved through other means.

The use of extended interviews and content analysis of banks' published reports and online materials provide evidence on both the reasons of adoption/non-adoption of the EPs as well as how the adoption/non-adoption decision is made in practice. The evidence is in both verbal (from the interviewees) and documentary format, providing additional details on the practice of CSR and decision regarding the EPs by Chinese banks.

In this study, semi-structured interviews are employed. Semi-structured interviews allow an investigation of a fairly clear list of topics, at the same time also provide an opportunity to accommodate other areas of interest that may arise during the interview, which is one of the desirabilities of using semi-structured interviews (Bryman & Bell, 2007). As illustrated by Blumberg, Cooper and Schindler (2011), semi-structured interviews provide rich data collection and allow the researcher to explore the case with clarified answers from interviewees, which also increases the internal validity of the study. Because of the inclusiveness of the unit of analysis, interviewees from multiple levels of bank hierarchy with different backgrounds and experiences have been approached with the help of contacts of the researcher for the interviews. This type of interviews with participants from multiple levels has been well supported in the literature (e.g., Ozcan & Eisenhardt, 2009). Varying in each case, these include board members, senior executive managers, operational managers, the CPC branch secretary, and marketing directors. Applying the researcher's subjective judgement, non-probability sampling is adopted for this study, and interviews are conducted with key people in the case banks that best enabled the researcher to tackle the objectives of this study. To achieve the research objectives, the interviewees are selected to reflect the bank and banking policy-decision-making perspectives. Interviewees from the senior level of the hierarchy are questioned about how they view the CSR and sustainable development issues in banking and the EPs and why their bank has adopted or not yet adopted the EPs. A total of 15 interviews have been conducted including face-to-face and telephone (through WeChat) interviews, encompassing a bank's members of the board of directors, senior executive managers, operational managers, the CPC branch secretary, and senior managers at division and branches. The interviews lasted in length between thirty-five minutes to one hour. Due to the outbreak of coronavirus, the initial schedule of interviews was postponed until in May and June 2020 when the pandemic was largely under control and social distancing lockdown rules were relaxed in China.

Data collection has been facilitated by the fact that the author has contacts in these banks as this is very important in the context of China for gaining access to an organisation for interviews. Although the sample is non-probabilistic in terms of non-adopting banks, the author made efforts to select interviewees with good knowledge of the EPs and a few years of work experience in the banking sector. In qualitative research like this one, the respondent validation has been posited as an important aspect of establishing validity in terms of credibility, transferability, dependability, and confirmability (Lincoln & Guba, 1985; Barratt et al., 2011). It is important for the use of the interview research method to select the research participants or respondents who are willing to provide their reliable and truthful opinions. In this study, the opinions are of particular relevance of the experience and institutional factors influencing the adoption of the EPs in the case of Chinese banks.

Based on the interview guide as shown in the Appendix, the researcher employs open-ended questions to investigate respondents' perception of the factors influencing the adoption or non-adoption of the EPs in the setting of Chinese banks. The researcher also has room to ask questions that are not included in the interview guide and provide freedom for interviewees to discuss other questions and factors that are not raised by the researcher.

Table 4.3: Categories of interviewees.

Interviewee	Interviewee organisation	Role of the interviewee in the case bank
15	• The Industrial Bank • Bank of Jiangsu • Bank of Huzhou • Industrial and Commercial Bank of China • Agricultural Bank of China • Shanghai Pudong Development Bank • Rizhao Bank	• members of the board of directors, • senior executive managers (e.g., directors), • operational managers and assistant manager, • the party secretary, • branch director and deputy director, • Head of corporate banking, • deputy head of a division, • senior accountant, • risk manager.

Table 4.4: The case banks and number of interviewees

• The Industrial Bank	Adopting institution	3 interviewees
• Bank of Jiangsu	Adopting institution	2 interviewees
• Bank of Huzhou	Adopting institution	2 interviewees
• Industrial and Commercial Bank of China	Non-adopting state-owned bank	2 interviewees
• Agriculture Bank of China	Non-adopting state-owned bank	2 interviewees
• Shanghai Pudong Development Bank	Non-adopting joint-venture bank	3 interviewees
• Rizhao Bank	Non-adopting small local private bank	1 interviewee

Table 4.5: The characteristics of Interviewees and date of interview

	M/FM	Roles in a bank	No of Years in the current job	Knowledge of EPs	Telephone or F2F interview	Date of interview
Interviewee 1	M	Deputy director of operation	3	High	Telephone	12/6/2020
Interviewee 2	M	Director	2	High	F2F	15/6/2020
Interviewee 3	F	Party secretary	4	Low	Telephone	15/6/2020
Interviewee 4	M	Risk manager	3	High	F2F	18/6/2020
Interviewee 5	M	Deputy head of a	5	High	F2F	18/6/2020

		division				
Interviewee 6	M	Head of a branch	3	Middle	Telephone	19/6/2020
Interviewee 7	F	Assistant manager	2	Low	Telephone	22/6/2020
Interviewee 8	F	Deputy branch director	3	Low	Telephone	23/6/2020
Interviewee 9	M	Bank director	4	High	F2F	26/6/2020
Interviewee 10	F	Head of corporate lending	2	Middle	Telephone	24/6/2020
Interviewee 11	M	Director of marketing	3	Middle	Telephone	24/6/2020
Interviewee 12	M	The party secretary	4	Middle	Telephone	02/7/2020
Interviewee 13	M	Deputy branch director	4	Middle	F2F	02/7/2020
Interviewee 14	M	Senior accountant	3	High	Telephone	07/7/2020
Interviewee 15	F	Head of corporate banking	3	High	F2F	08/7/2020

Due to social distancing lockdown which caused a delay in conducting interviews, data collection took place between later May and June 2020. While preference was given to face-to-face interviews, due to social distance rules and the travel inconvenience caused by the COVID-19 pandemic, the researcher also conducted 9 telephone (through WeChat) interviews to suit interviewees' schedules. All 6 face-to-face interviews were conducted within 150 miles of the researcher's hometown. Three interviewees were interviewed twice for more clarifications and additional questions raised in the first-round interviews. The interviews lasted between 20 minutes and 1 hour 30 minutes (in the case of face-to-face interviews). The interview language was Mandarin because all the participants can speak and understand Mandarin fully fluently. Telephone interviews lasted much shorter than face-to-face interviews. Five interviews were digitally recorded and all the remaining interviews (as the interviewees did not want to be recorded) had notes taken.

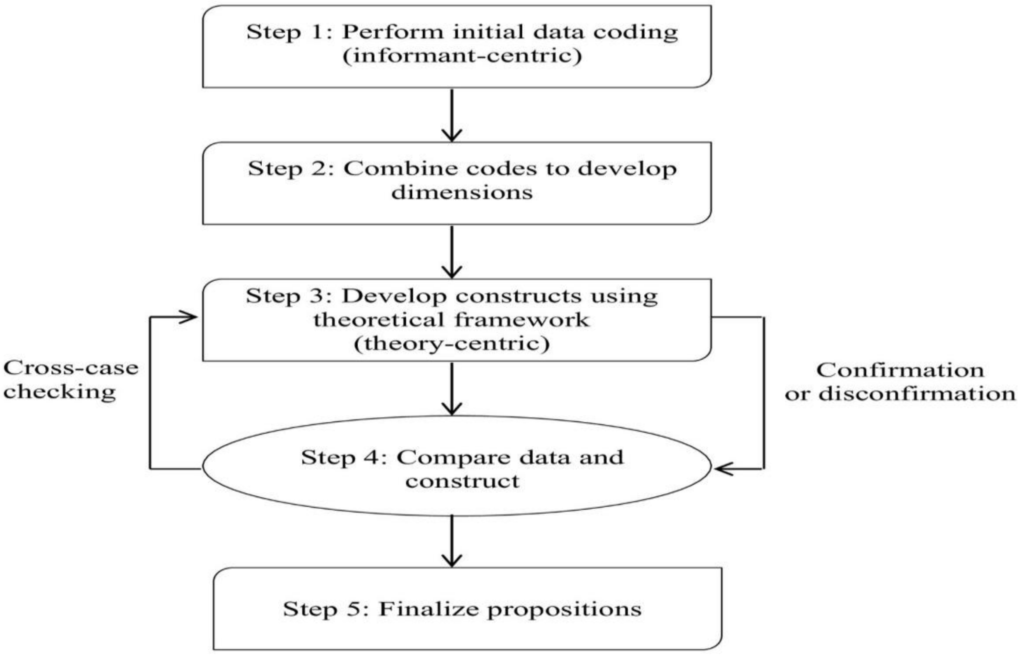
The key findings and core contents of interview transcripts were translated into English by the researcher and a professional translator with fluent English, and an independent bilingual person back-translated the English version into Chinese in order to check the accuracy. There were no major problems with the translation of transcripts.

4.6 Overall Analysis Approach

The reasons for using interviews have been described in previous section and the literature as well. For qualitative research, interviews are the most important means to collect primary data. In general, interviews present an insight into respondents' memories and explanations of why things have come to be what they are, as well as descriptions of current problems and aspirations (Stark & Torrance, 2005). Interviews have been widely considered an effective way of conducting social and business research.

The overall analysis approach is based on the data analysis framework used by Derakhshan, Mancini and Turner (DMT) (2019). Derakhshan et al. (2019) adapt a data analysis framework as presented in Figure 4.1 from Eisenhardt (1989) and Gioia, Corley and Hamilton (2013). In this study, the theory is modified from the observation of empirical reality. The DMT framework involves five steps as shown in Figure 4.1. The researcher first conducted interviews of telephone and face-to-face with 15 senior managers from Chinese banks who know the EPs. Then the researcher coded the transcribed interviews. From combining the codes, the dimensions on the key factors influencing the adoption of the EPs emerged. In the following step, the dimensions are extracted and incorporated into theoretical propositions, which provide academic contributions to the literature.

Figure 4.1: Data analysis framework of Derakhshan, Mancini and Turner (DMT) (2019).



Source: Derakhshan, Mancini and Turner (2019), p.76.

The interviews were constructed with a set of open-ended questions closely aligned with the research inquiry of this study so that their insights, perceptions, and experiences can be identified and compared. An analysis of documents as reported in the previous chapter also supplements the analysis of the interview findings and was used to triangulate along with critical literature reviews (shown in Chapter 3) the findings from the interview data sets.

As suggested by King (2004), direct quotes from participants are an essential component of the writing of interview studies. In Chapter 6, some direct quotes will be presented to illustrate the data and descriptions of insiders’ views and involvements.

As part of the qualitative exploration of the reasons and institutional factors behind Chinese banks to adopt/not adopt the EPs, interviews have been used to obtain the primary data. As explained in the previous section of this Chapter, a key component of a case study research is interviews. For this study, the interview questions are developed based on the literature review of both CSR and sustainable development, and the EPs in Chapters 2 and 3. The semi-structured interview generates flexibility that allows interviewees to develop issues and consider from their perspectives and experience relevant issues that are of interest and importance to the research question(s). Moreover, semi-structured interviews allow for having additional discussions of issues that have not arisen in the initial literature review and not in the list of pre-designed questions.

4.7 Summary

This chapter provides a discussion of the research methodology for this study and a description of the research design. Given the nature of this research and its research objectives, this study uses case studies and interviews on the grounds that this qualitative research method facilitates the development of a deeper understanding of the behaviours of Chinese banks towards the EPs and sustainable development. Case studies are particularly useful for exploratory research, where an inductive approach can be adopted, using theory to explain empirical observations, and also inform refinements and extension of theory (Otley & Berry, 1994). Also, this study takes the interpretivism because it recognises the influence of organisational context upon the decision of sustainable development engagement and the choice of (non-)adoption of the EPs in Chinese banks.

Nevertheless, the limitations of case study research and interviews are fully acknowledged, including, for example, its dependence on the materials available from the cases, the willingness of interviewees to engage in interviews and their views, and the resulting lack of ability to validate a theory from the findings. The final chapter will provide a discussion of the research limitation. However, it is strongly argued by the researcher that both case study and interviews are the appropriate approaches to this study and they help provide valuable analyses concerning the (non-)adoptions of the EPs and sustainable development by Chinese commercial banks.

Chapter 5 Case Study Analysis

5.1 Introduction

Based on the research questions presented in the previous Chapters, and a discussion of research methods, this study uses case studies and interviews. This chapter presents an analysis of case studies. As outlined in Chapter 4, this study focuses on three case banks that have adopted the EPs in China by the time of doing the fieldwork. Due to the different timing of adoption, the case analysis will be different in the details of analysis and presentations as the Industrial Bank adopted much earlier than Bank of Huzhou that just adopted less than a year ago. Because of the COVID-19 pandemic, there has been little information available from Bank of Huzhou on the activities and performance of social and environmental projects financed under the EPs. The case study consists of an introduction of case bank, a case bank's CSR, and the adoption of the EPs respectively for each case bank. The interview results included in these case studies and critical discussions of both case studies and interviews in line with findings and arguments from the existing literature will be presented in the next two chapters.

This chapter is structured as follows: The next section provides an overall view of the case study approach, followed by three case studies of the Industrial Bank, Bank of Jiangsu, and Bank of Huzhou. The final section is a brief summary of this chapter.

5.2 Overall View of the Case Study Approach

A case study seeks to engage with and report on the complexity of social and business management activities from a case or cases in order to present the meanings that individual social actors (such as managers, investors, stakeholders) bring to those settings. As explained in Chapter 4, a case study has been widely used in CSR research covering a wider range of topics in CSR, sustainable development, social and environmental performance, and reporting of CSR or sustainability etc. (e.g., Berkowitz, Bucheli, & Dumez, 2017; Harrison, 2019; Mitra & Dash, 2020).

A case study is one of the numerous approaches of doing empirical research, whether it is social science-related or even socially related (such as this study of investigating the adoption of the EPs and banking sustainable development), as it aims to understand human beings in a social context by interpreting their actions, decisions as a single group, community or a single event: a case or a few cases. Gillham (2000) defines a case study as an investigation to answer specific research questions, which seeks a range of different evidence from the case settings (p.1), while Yin (2009) defines a case study as an empirical inquiry that examines a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly defined. This is exactly the situation of case banks in this study where the boundaries between the adoption of the EPs and the context of a bank's operations and services (including CSR engagement) are not clearly defined because many principles of the EPs are implicitly embedded in a bank's CSR and sustainability programmes and strategies. The case study method is especially useful in situations where contextual conditions of the event being studied are critical and where the researcher has no control over the events as they unfold. This is also the case in this study as the researcher has no connection (regardless of control) with the three case banks. China's specific context is very critical for this study as the country has adopted a different legal, social, and political system from the Western economies where the EPs were initiated and developed. Chapter 2 provides a description of China's specific context and China banking system. Ritchie and Lewis (2003) consider the basic defining features of a case study as being a multiplicity of perspectives which are rooted in a specific context. The uniqueness of China's banking system makes this study more interesting and the findings will have practical implications for the international communities of finance.

In China, there are only five private banks (including joint stocks) that have adopted the EPs by the time of writing this thesis, although all Chinese banks have almost implemented certain CSR policies and developed some sustainable development strategies as shown in the literature review chapter. Table 5.1 lists these five banks and the dates they adopted the EPs.

Table 5.1: A list of five banks and dates of their adopting the EPs

Name of Bank	Brief Introduction of Bank History	Time to Join the EPs
Industrial Bank	It was established in Fuzhou City, Fujian Province in 1988 with a registered capital of RMB20.774 billion and in 2007 it was listed on the SSE. Industrial Bank was one of the first joint-stock commercial banks approved by the State Council and the People's Bank of China (China's Central Bank). It is now ranking among the top 30 banks in the world and Fortune Global 500.	October 31, 2008
Bank of Jiangsu	A joint-stock commercial bank was founded by merging and reorganizing ten commercial banks in cities of Wuxi, Suzhou and Nantong in Jiangsu province, which created a new model of local corporate banking reform. Formally entered service on January 24, 2007, it is now a large local provincial corporate bank in Jiangsu Province, China.	20 January 2017
Bank of Huzhou	Established in 1998, Bank of Huzhou is a local joint-stock commercial bank based in Zhejiang Province, China. The bank mainly serves the local economy of Zhejiang province.	July 24, 2019
Chongqing Rural Commercial Bank (CRCB)	Established in June 2008, CRCB was formed based on the original Chongqing Credit Union, 39 district and county credit cooperatives, and rural cooperative banks. It was the first provincial rural commercial bank in Central and Western China. On December 16, 2010, CRCB was listed on the H-share main board of Hong Kong, becoming China's first listed rural commercial bank and the first overseas listed local bank.	February 27, 2020
Mianyang City Commercial Bank (MCCB)	MCCB was established on September 26, 2000, based in Mianyang City, Sichuan Province. The bank mainly serves the local economy of Mianyang.	July 20, 2020

The locations of these five banks are indicated in the map below.

5.3 The Industrial Bank Co., Ltd. (China)

5.3.1 Introduction of the Industrial Bank Co.

The Industrial Bank Co., Ltd. (China) is a commercial bank that locates in Fuzhou, Fujian Province of China. It was established in August 1988 under the name of Fujian Industrial Bank Joint-Stock Co. Ltd. In March 2003, the bank changed its name to Industrial Bank Co., Ltd. and became one of the first joint-stock commercial banks approved by China’s State Council and the People’s Bank of China, which is the country’s Central Bank. In February 2007, the bank was officially listed on the Shanghai Stock Exchange with the capital of over RMB 10.7 billion. The bank is the first Equator Bank in China, adopting the EPs in 2008.

The Bank’s main business activities include deposits taking, provision of loans, local and international payments and settlements, bills acceptance and discounting, financial bonds issuing, inter-bank placements and borrowing, bank card business and other general commercial banking activities. Industrial Bank Co. offers loans for personal financing, manufacturing, real estate, wholesale and retail, as well as leasing finance and business services. The Bank is a banking group organised primarily around three sectors of main activities: retail banking, financing and investment banking, and money market banking. At the end of 2018, the group managed CNY3,303.5 billion in current deposits and CNY2,838.4 billion in current credits. The marketing of the products and services was ensured through a network of 2,032 branches located in China[30]. It was ranked among the top 30 banks in the world and Fortune Global 500.

The mission of the Industrial Bank is "exploring the path for financial reforms and contributing more to China's economic construction". According to the Bank's report, the Bank has embarked on a differentiated and specialised development path through reforms and innovations over the years. The bank was the first to establish the governance concept of sustainable development. The bank was the first in China's banking sector to implement the evaluation and assessment model with the use of economic-value-added (EVA) as its core measure. Also, the Bank was among the first to establish the funds-transfer pricing (FTP)[31] based asset-liability management system and the first to build market-oriented research institutions and financial technology companies. Particularly, the bank has claimed over many years that it took the lead in green finance to build itself into a world-class green financial integrated service provider and took the lead in setting up a small and medium-sized bank cooperation platform to create a new practice model of inclusive finance, trying to promoting social equality and reducing the poverty.

Under the corporate governance system operated by the bank, the role of the CPC Party Committee was emphasised. For example, in its Annual Report 2018, it states that: "The Company continued to strengthen the construction of corporate governance system and give play to the core role of the Party Committee in corporate governance, while constructing and clarifying the objectives and direction of the Board of Directors and the Board of Supervisors" (p.116). Under the existing corporate governance structure, the Board of Directors and the Board of Supervisors performed their functions in making strategic decisions and supervision. The Board

[30] https://www.marketscreener.com/INDUSTRIAL-BANK-CO-LTD-6499468/company/ (accessed on 04 March 2020)

[31] FTP is a system used to estimate how funding is adding to the overall profitability of a company. FTP sees its most significant use in the banking industry where financial institutions use FTP as a way to analyse the strengths and failings of the firm within the institution. FTP is an important reporting metric used in banking management analysis and reporting. It requires the pooling of information across assets and liabilities. Commonly, it is also analysed in conjunction with asset/liability management (https://www.investopedia.com/terms/f/ftp.asp).

of Directors of the Bank consists of 14 directors, including 10 non-executive directors (including five independent non-executive directors) and four executive directors. Among these 14 directors, 11 are domestic directors and three are from overseas. There are five committees under the Board of Directors, including, the strategy committee, the risk management and consumer protection committee, the audit and related party transaction control committee, the nomination committee, and the remuneration and evaluation committee. In the Industrial Bank, independent directors play a key role as they chair four committees (including the risk management and consumer protection committee, the audit and related party transaction control committee, the nomination committee, and the remuneration and evaluation committee) and perform their duties diligently, focusing on the interest of the shareholders, especially minority shareholders, and issuing independent and objective opinions and suggestions (Annual Report, 2019).

Apart from the functions of the board of directors, the Bank also has established the Board of Supervisors[32]. The Board of Supervisors has eight supervisors, including two shareholder representatives, three employee representatives, and three external supervisors. There are two special committees under the Board of Supervisors: The Supervision Committee, and the Nomination, Remuneration and Evaluation Committee. Both committees are chaired by external supervisors. The purpose of the Board of Supervisor is to protect the interests of shareholders and the company, and fulfil the duties of supervision in engaging in the project-based research and studies, investigating the auditing activities, overseeing the Bank’s financial activities, risk management, internal control, and duty performance of the Board of Directors and senior managers.

The senior management of the Bank consists of one president and four vice presidents. There are several management committees under senior management structure, including the business operation management committee, the assets and

[32] “China's corporation law stipulates a limited liability company has a board of directors and a board of supervisors. Regarding Chinese requirements of a board of supervisors, under Articles 52 to 57 of the Company Law of the People's Republic of China: a limited liability company requires setting up a board of supervisors, which shall comprise at least 3 persons. A limited liability company, which has relatively less shareholders or is relatively small in scale, may have 1 or 2 supervisors, and does not have to establish a board of supervisors. The board of supervisors shall include representatives of shareholders and representatives of the employees of the company at an appropriate ratio which shall be specifically stimulated in the Articles of Association” (Chen et al., 2016, p.82).

liabilities management committee, the risk management committee, the investment decision committee, the credit approval committee, the internal control committee, the major purchases committee, the business continuity management committee, the internal accountability committee, the financial science and technology committee, and the green finance business committee.

Overall, the Bank has established the recommended mechanism of corporate governance under the existing corporate governance guidance and management structure. Corporate governance in China is a two-tier board system that is quite different from the system operated under the one-tier board system of USA and the UK. The Industrial Bank has fulfilled the requirement under China's Company Law for corporate governance.

5.3.2 CSR in the Industrial Bank Co.

The case bank has a belief as indicated in the Bank's CSR practice model[33] of the connection between CSR and the principle of sustainable development. The CSR practice model states that: "The Industrial Bank recognizes that the connotation of corporate social responsibility and the principle of sustainable development are closely linked, and the two have jointly expanded the areas involved in traditional business ethics".

Over the past more than a decade, the Industrial Bank has been devoting itself to the development of sustainable banking. Earlier back to October 2007, the bank officially endorsed the UN Environment Programme Statement by Financial Institutions on the environment and sustainable development[34], demonstrating that Industrial Bank

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[33] The CSR practice model is presented at https://www.cib.com.cn/cn/aboutCIB/social/responsibility/20150916_1.html (in Chinese). (Accessed on 11/05/2020).

[34] The UN Environment Programme (UNEP) Statement represents the backbone of the UNEP Finance Initiative. The UNEP Finance Initiative was launched in 1991 when a small group of commercial banks, including Deutsche Bank, HSBC Holdings, Natwest, Royal Bank of Canada, and Westpac, joined forces with UNEP to catalyse the banking industry's awareness of the environmental agenda. In May 1992, in the run up to the Rio Summit that year, the UNEP Statement by Banks on the Environment and Sustainable Development was launched in New York, and the Banking Initiative was formed. By signing up to the Statement, financial institutions openly recognize the role of the financial services sector in making the economy and lifestyles sustainable and commit to the integration of environmental and social considerations into all aspects of their operations. In 2010, so as to duly reflect the common governance grounding of the Initiative, the UNEP Statement by Financial Institutions on the Environment & Sustainable Development and the UNEP Statement of Environmental Commitment by the Insurance Industry were merged into a single Statement, the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, finalized in 2011. All financial

formally adopted this initiative. Moreover, the Bank and International Finance Corporation entered into two-phase cooperative agreements on China Utility-based Energy Efficiency Finance Programme in 2006 and 2008 respectively intending to promote the efficiency of energy usage among Chinese firms. According to a report released by the Industrial Bank, by the end of Sept 2008, the bank had extended approximately RMB2.8 billion energy efficiency loans to companies in China. It was expected that these initiatives would help save 3.35 million tons of standard coal consumption per year; this is equivalent to a reduction of 10.82 million tons of carbon dioxide emission per year. The Industrial Bank received many awards around the time when it adopted the EPs. For example, during the 2007 sustainable banking awards jointly hosted by the Financial Times and International Finance Corporation in June 2007 in London, the Industrial Bank was nominated for "Emerging Markets Sustainable Bank of the Year" and "Sustainable Deal of the Year" categories and achieved the runner-up in the category of "Sustainable Deal of the Year".[35] This is the first and sole financial institution from China to receive this award. In 2009, the Industrial Bank was nominated for "Sustainable Bank of the Year" and "Sustainable Emerging Markets Bank of the Year Asia" categories in the "2009 Sustainable Banking Awards"[36]. More recently, some awards were also received by the Industrial Bank in recognising its CSR and sustainable development performance. For example, the bank was awarded the "Sustainable Development Demonstration Enterprise" in the "2018 China Corporate Social Responsibility Summit Forum, 2018 CSR Competitiveness – China Corporate Social Responsibility" organized by China Business News.[37] By the time of doing this study on 15 June 2020, the bank's website on Latest CSR News (English) has not been updated. The last news reported was dated 11 Feb 2018 on "With Ten-year Practices Turned into texts, IB Consistently Explores Green Development"[38].

With regard to corporate governance and CSR, the Industrial Bank Co. Ltd. has established the philosophy from "shareholders' interests foremost" to "giving

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institutions wishing to join the UNEP Finance Initiative must adhere to the Statement (https://www.unepfi.org/about/unep-fi-statement/history-of-the-statement) (Accessed on 5 May 2020).

[35] See: https://www.worldbank.org/en/news/press-release/2007/06/07/winners-2007-ft-sustainable-banking-awards-announced (Accessed on 10 June 2020).

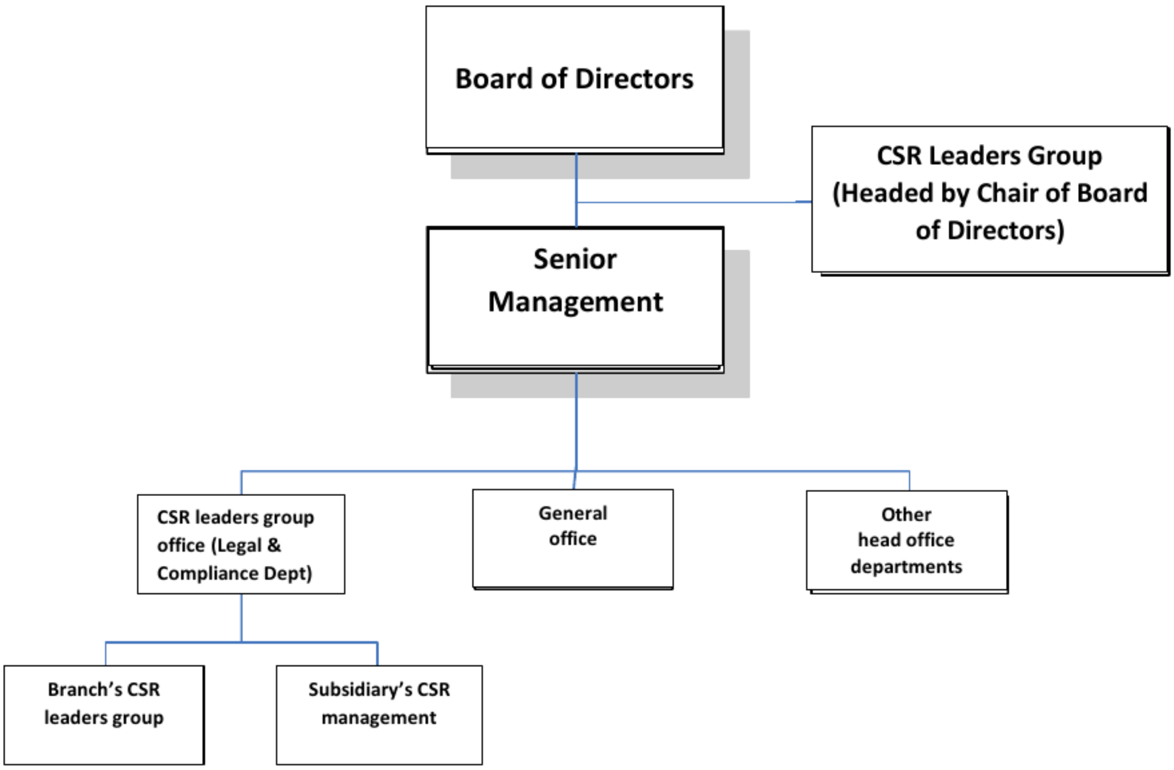
[36] See: https://www.pearson.com/en-gb/news-and-research/announcements/2009/04/ft-announces-shortlist-for-2009-sustainable-banking-awards.html (Accessed on 10 June 2020).

[37] Industrial Bank's Annual Report 2018, p.9.

[38] https://www.cib.com.cn/en/aboutCIB/social/news/20180305.html (Accessed on 15 April 2020).

consideration to the interests of stakeholders" and the "harmonious unification of economy, society and environment and the sustainable development of bank". The management of CSR has been formulated, as shown in Figure 5.1 with the new philosophy of "harmonious unification of economy, society and environment and sustainable development of bank" underpinning the relationship between the bank's social responsibilities and its sustainable development. The philosophy demonstrates the achievements of the bank in sustainable finance and meeting the EPs. This is also commented by a senior manager from the bank as reported in the next chapter. It reflects the ways to promote the bank to practise social responsibilities and construct a good relationship where human being coexists with the nature, environment, and society harmoniously.

Figure 5.1: The Industrial Bank's organizational structure of CSR management



Source: *Translated from the Industrial Bank's annual sustainability report (2019) (in Chinese), p.11.*

The bank designs its CSR practice model with the realisation of "CSR is in close relation with the principles of sustainable development". This is consistent with the arguments put by scholars in the literature. This is important for a business organisation as CSR is not the sole aim of the organisation and the organisation needs to maintain sustainable development (Van Marrewijk, 2003; Carroll & Shabana, 2010). CSR has resonance within sustainable development (Lee, 2020). CSR is a term for summarising the contribution of businesses towards sustainable development (Pucheta‐Martínez et al., 2019). Banks are increasingly challenged by stakeholders including customers, employees, investors, and environmental activists to develop a blueprint for how they will sustain economic prosperity while taking care of their employees and the environment (Campbell & Slack, 2011). The Industrial Bank's CSR model jointly extends the fields covered by conventional commercial morality and enriches the contents of corporate governance. The website of the Industrial Bank specifically states that: *"We believe that the social responsibility of a commercial bank is not merely limited to creating profits, paying taxes and making a donation. Moreover, the profounder meaning lies in that it should timely learn and handle the concerns of the stakeholders by way of operating businesses in a correct way, and drive other enterprises and even the whole industry to perform social responsibilities actively by making full use of its special advantages and influence in the economic and social development as a commercial bank, so as to extend the effect of social responsibility performance".*[39]

Moreover, the Bank proposed its social responsibility practice model that is in line with the CSR principles of "integrating righteousness into profitability". The fundamentals of this practice model are to combine social responsibilities with the organisation's banking business, implement such responsibilities into the specific operation and management links of the bank, and to seek business opportunities during the performance of social responsibilities to achieve a 'win-win' results between the bank and the society at large.

The Bank is one of the earliest banks that have published CSR reports. In 2008, it published a summary report "Social Responsibility Report 1988-2008", and in 2009, it published a separate "2008 Social Responsibility Report" in Chinese. In this report, it first time mentions the EPs and reported the bank adopted the EPs. In its annual report 2018, there is a specific section on the performance of social responsibilities (Section XI). It covers (I) poverty alleviation work, (II) consumer rights and interests

[39] https://www.cib.com.cn/en/aboutCIB/social/responsibility/20150916_1.html (Accessed on 6 May 2020).

protection, (III) The company has disclosed the 2018 sustainable development report of the bank, and (IV) environmental performances and policies.

Concerning the case bank's CSR practice model, it adopts an integration approach. As shown in the website of the bank, the Industrial Bank realises that the connotation of CSR is in a close relationship with the principles of sustainable development and they jointly extend the fields covered by the conventional commercial morality and enriches the contents of corporate governance. The bank believes that the social responsibility of a bank is not merely limited to creating profits, paying taxes and making a donation. It states that "the profounder meaning lies in that it should timely learn and handle the concerns of the stakeholders by way of operating businesses in a correct way, and drive other enterprises and even the whole industry to perform social responsibilities actively by making full use of its special advantages and influence in the economic and social development as a commercial bank, so as to extend the effect of social responsibility performance".[40]

In terms of environmental policy, the bank holds that it is the responsibility of the bank that fulfil CSR and promote sustainable financial development, and this is an important step for the bank in complying with increasing environmental-protection related laws and requirements. The bank believes that social responsibilities and sustainable finance are core philosophies and values of the business. These values guide the Industrial Bank in its commercial operations. Based on this, the Bank, in order to unify all concepts, regulations and measures of environmental and social policies and advance the long-acting development of sustainable finance, has established relevant environmental and social policies covering the following basic contents: Guidelines, statements and commitments, departments and responsibilities, internal and external measures, and credit procedure. Through establishing and implementing the above environmental and social policies, the Bank expects to fulfil its commitments in sustainable environmental and social development and establish the environmental and social policy system of the bank to serve as a solid foundation for the bank's sustainable finance. Overall, from the content analysis of its websites and various reports it can be concluded that CSR has been paid much attention by the Industrial Bank Co., Ltd. which seems to underpin its adoption of the EPs.

[40] https://www.cib.com.cn/en/aboutCIB/social/responsibility/20150916_1.html, Accessed on 15/4/2020

On April 28, 2020, Industrial Bank issued the "2019 Annual Sustainability Report", which is its 12 consecutive years of disclosure of its annual social responsibility report. The latest Chinese version of Sustainability report (2019) contains over 110 pages, which is one of the biggest CSR or sustainability reports published by Chinese companies[41]. Obviously, this report, at least partially, represents the great effort of the Industrial Bank in meeting stakeholder expectations on comprehensive disclosures of social and environmental information. As the Bank has voluntarily published its CSR and sustainability report for over a decade and the content coverage is substantial in terms of the page number.

5.3.3 The adoption of the EPs

The Industrial Bank is the first bank in China adopting the EPs. On October 31, 2008, the Bank announced the adoption of the EPs and became the 63rd in the world and the first "Equatorial Bank" in China.

In the Bank's 2008 Social Responsibility Report, Section 3 states that the bank adopted the EPs and improved the environmental risk management system. The purpose of adopting the EPs was to better fulfil its responsibility to the environment and achieve sustainable development. Initially, the Industrial Bank formulated a one-year work plan for the implementation of the EPs and then gradually established a system and management process that satisfies the requirements of the EPs. The system includes the establishment of project risk classification standards, screening of the EPs trial industry, formulation of trial industry implementation rules, updating of credit review and approval processes, development of due diligence management guidelines, the establishment of expert review mechanisms, and improvement of project list management, etc. In addition, the system contains developing an effective environmental information disclosure system, strengthening exchanges and cooperation with non-governmental organisations, strengthening personnel training and capacity building. Moreover, the system also includes strengthening international cooperation, close exchanges and learning with international EP adopting banks (such as Citibank, Mizuho Bank, Barclays). According to the Bank's CSR and sustainability reports, the Industrial Bank has regularly updated the corporate culture policies and strategies in order to improve the corporate culture

[41] Comparing to the 11-page CSR report published for 2019 by Bank of Huzhou (to be reported in Section 5.5), the 2019 Sustainability Report of the Industrial Bank is very substantial in its size.

based on social responsibility and sustainable development. The Industrial Bank has incorporated the EPs into the bank's development strategy.

The bank has reported its activities under the EPs over many years. For example, in 2015 and 2016 annual reports, the bank mentioned the first Equator Bank in China in the reports' cover page. However, there was no further information given on any policy and details of implementing the EPs. In 2017 annual report, some additional information was provided as it shows:

"*As the first Equator Bank in China, the Company has fully fulfilled its responsibilities of promoting the sustainability concept, and incorporated the sustainable development concepts into every aspect of its daily operation and management. It advocated low-carbon offices by strengthening energy conservation reminding, and promoted green operation in electricity use, water use, paper use, waste recycling, use of energy-efficient and eco-friendly facilities as well as management. In addition, it has prompted more stakeholders to pay attention to and implement green development and contribute to the construction of beautiful China through diverse activities including regular green training, green consumption promotion and green welfare events. The Company has long persisted in the EPs and adopted environmental and social benefits as major assessment indicators for project operations*."[42]

"As the first bank in China to adopt the EPs, the Company actively implemented the state's low-carbon and environmental protection policy and always adhered to the green operation concept, emphasizing "green office, low-carbon life", paying particular attention to refined energy consumption management to save energy and reduce consumption in water, electricity and paper consumption, waste recycling, energy conservation and environmental protection facilities. During the reporting period, the carbon dioxide emissions of the Company's headquarters were 24,868.13 tons" (the Annual Report 2018, p.90).

The bank's website (2018) shows that: "As the first Equator Bank as well as the foregoer of green finance in China, the Industrial Bank has adhered to the sustainable development concept of 'showing obligations in profits' for many years,

[42] For details, please refer to "the 2017 Sustainable Development Report of Industrial Bank" and The Annual Report 2017 (p.83).

and integrated the bank's commercial operation and CSR together in the practice of bank operation and management, so as to develop itself towards an IB-featured social responsibility practice road….Taking green finance as an example, the Industrial Bank has made continuous improvement in the organizational structure and system of green finance, exerted itself to expand the green finance development body from bank to the branches, as claimed by the Bank. It has formed a complete and multifarious green product service system covering green financing, green leasing, green trust, green fund, green investment and green consumption, while being committed to 'establishing excellent services supplier in green finance and the leading green finance group in the entire market' and fulfilling its responsibilities, as a financial institution, of promoting the reform of ecological civilization and activating the market mechanism"[43].

In the bank's annual reports of 2015, 2016, the EPs have not been given much attention. Although the cover of the annual report mentions that the bank is the first Equator bank in China, there is no further detail presented in these annual reports. However, in the annual report of 2017, the bank changed its cover page of the annual report by stating that: "The first Equator Principles financial institution in China" and has one paragraph of statement explaining the adoption of the EPs as follows: "By the end of 2017, the Industrial Bank had granted green financing totalling RMB 1,456.2 billion for 14,396 corporates, with the financing balance hitting RMB 680.6 billion. Each year, it is estimated that the supported projects could save 29.12 million tons of coal equivalents and reduce 83.78 million tons of carbon dioxide, which is equal to shutting down 192 thermal power plants of 100MW or stopping the running of 100,000 taxis for 40 years. Such acts continuously support the construction of beautiful China in protecting the environment".

Reported by the Bank in its annual report 2018, the Industrial Bank "continued to practice the Equator Principles by applying the concepts and methods of the Equator Principles to enhance the systemization, specialization and operability of project management, gradually promote the innovation of the Company's sustainable development concept" (p.90). The bank integrated the strategy of "sustainable development" and the social responsibility practice model of "virtual wealth" into

[43] According to the news released by the Industrial Bank, as reported in https://www.cib.com.cn/en/aboutCIB/social/news/20180305.html (Accessed on 15/4/2020)

banking business to promote the sustainable development of the entire society (the Annual Report 2018, p.90).

“As the first Equator Bank in China, the Company has fully fulfilled its responsibilities of promoting the sustainability concept, and incorporated the sustainable development concepts into every aspect of its daily operation and management. … In addition, it has prompted more stakeholders to pay attention to and implement green development and contribute to the construction of beautiful China through diverse activities including regular green training, green consumption promotion and green welfare events. The Company has long persisted in the Equator Principles, and adopted environmental and social benefits as major assessment indicators for project operations. During the financing process, the Company performed full environmental and social risk management, and issued researches on sustainable finance, thereby driving comprehensive and sustainable development of the economy, society and environment.” (The Annual Report, 2017, p.83).

Meanwhile, the Company adhered to green procurement. It strictly reviewed suppliers' safety, health, environmental protection and labour security in the procurement process and strengthened the environmental and social management of suppliers. The Company continued to practice the Equator Principles by applying the concepts and methods of the Equator Principles to enhance the systemization, specialization and operability of project management, gradually promote the innovation of the Company's sustainable development concept. It integrated the strategy of “sustainable development” and the social responsibility practice model of “virtual wealth” into banking business to promote the sustainable development of the entire society.” (The Annual Report 2018, p.90).

In the Bank’s sustainability report (2018), it reports that during the ten years, the bank judged the applicability of EPs for 1,048 transactions accumulatively, involving RMB1,578,246 million project investment (Sustainability Report 2018, p.13).

Overall, the bank has reported much positive news and activities of adopting the EPs, but little information has been given as to the experience and costs involved in adopting the EPs. There is no information given on the process of assessing the environment impact of the EPs projects and transactions. As a whole, the information given was very general and very much descriptive.

5.4. Bank of Jiangsu Co., Ltd.

5.4.1 Introduction of Bank of Jiangsu Co.

Bank of Jiangsu Co., Ltd., is a modern joint venture commercial banks based in Jiangsu province, China. Jiangsu is a well-developed region in China, and it is close to Shanghai, which helps the development of many SMEs. The bank was formed in January 2007, by merging and restructuring 10 small local commercial banks and institutions in several cities of Jiangsu Province including, Wuxi, Suzhou, and Nantong. This formulation was an outcome of local corporate banking reform and developed into one of the largest provincial-level commercial banks in China.

The bank's mission is to create a better life and the core values of the banks are "Integration and innovation, pragmatic responsibility and lean growth", according to the Bank's website and CSR report (2019). The bank sticks to the development direction of "characteristic, intelligence, internationalization and integration" and devotes itself to the construction of "a characteristic and first-rate commercial bank with core competitive advantage" (CSR report, 2019). In August 2016, the bank's shares were listed on the Shanghai Stock Exchange. By the end of 2018, the bank's total assets were RMB1.93 trillion and the net profit attributable to shareholders of listed companies reached RMB13,065 million. In the 2018 ranking of the top 1,000 global banks by the British magazine 'The Banker', Bank of Jiangsu was ranked 91st by tier one capital, entered the top 100 of global banks and ranked 17th in China (Bank of Jiangsu's Annual Report 2018, p.23).

The bank was committed to building "the best bank enjoying the Internet big data gene" and strengthening the strategic position of financial science and technology applications. The bank claims that with the basic platform building, data value creation, customer scenario services, smart marketing landing as the orientation, it accelerated the pace to propel the conversion of kinetic energy for development and promoted the application of new technologies in various areas of the operation and business, accelerated the transformation of traditional business with new technologies, and further promoted the advantages of featured business (Bank of Jiangsu's Annual Report 2017, p.4).

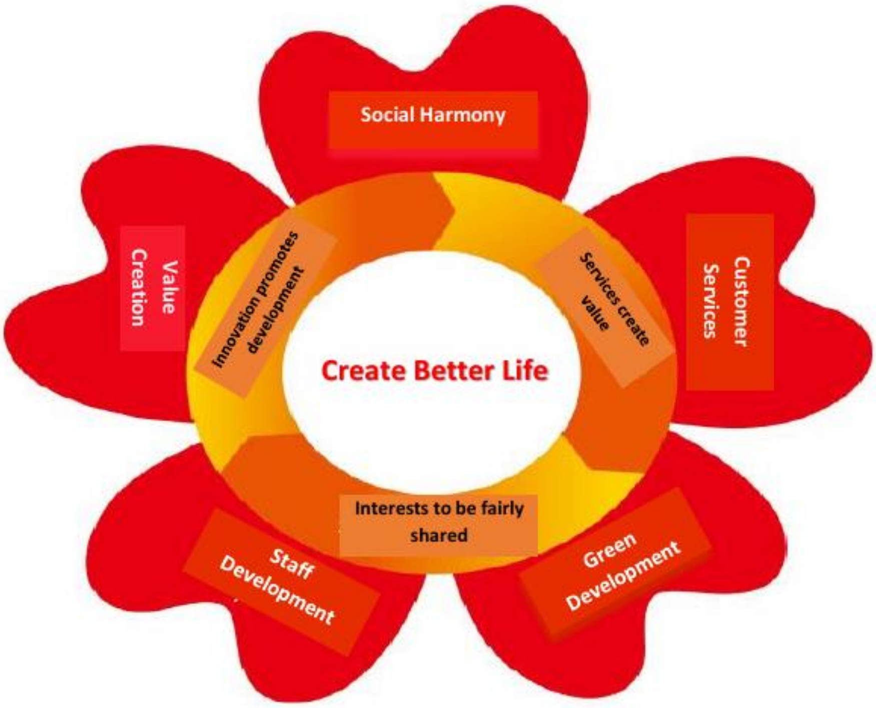
In terms of corporate governance, Bank of Jiangsu has two boards. One is the board of directors. The board of directors has six special committees, namely the Strategy Committee, the Audit Committee, the Related Party Transaction Control Committee, the Risk Management Committee, the Nomination and Remuneration Committee and the Consumer Rights Protection Committee. Among them, independent non-executive directors occupy the majority in the Audit Committee, the Related Party Transaction Control Committee and the Nomination and Remuneration Committee and independent non-executive directors chair these committees.

5.4.2 CSR in Bank of Jiangsu

The bank regularly publishes its social responsibility report. The latest social responsibility report was published in April 2020. The bank applied the “Opinions of Strengthening the Social Responsibility of Banking Finance Institutions” of China’s Banking and Insurance Regulatory Commission, the “Guidelines on Corporate Social Responsibility of Chinese Banking Financial Institutions” of the China’s Banking Association, the Shanghai Stock Exchange’s “CSR Reporting guidelines on the preparation of environmental information disclosure of listed companies on the Shanghai Stock Exchange”, the ISO26000 of the International Organisation for Standardisation, and GRI’s “Sustainability Reporting Guidance” as references to prepare its social responsibility reports.

The case bank adheres to the mission of “facilitating a better life”, incorporating corporate social responsibility into the development strategy and the whole operation process. Bank of Jiangsu has established the social responsibility management system and been proactive in exploring the social responsibility fulfilment approaches and initiatives that are suitable for the characteristics of the bank. Bank of Jiangsu aims at contributing to the sustainable development of the economy and society and creating value for society. The corporate social responsibility concept model was established by Bank of Jiangsu as shown in Figure 5.2.

Figure 5.2: The Social Responsibility Concept Model of Bank of Jiangsu



(Translated from the Chinese version of the 2019 CSR report of Bank of Jiangsu, p.11)

The above model has three levels with the centre as the core aim of "to create better life", served by three objectives consisting of "innovation promotes development, services create value, and fairly sharing interests" within five areas of "social harmony, customer services, green development, staff development, and value creation".

The bank has built its stakeholder engagement model that identifies stakeholders, stakeholder expectation, the approaches to engage stakeholders and response measures (i.e., actions and initiatives). The model is presented in Figure 5.3.

Figure 5.3: Stakeholders engagement model of Bank of Jiangsu

Stakeholder	Expectation	Engagement Approach/Means	Actions and Initiatives
Government	• Comply with national laws and regulations, industry standards and norms • Guarantee the safety of bank funds • Maintain fair competition according to law and a fair competitive environment • Adhere to sustainable development	• Laws and regulations, policy guidelines, regulatory documents • Industry conferences, special reports, regulatory notifications and ratings, on-site inspections, off-site supervision • Symposiums, seminars, forums	• Respond to government policies • Implement regulatory rules • Improve management performance • Receive supervisory assessment
Regulatory	• Compliance operation	• Regulatory policies,	• Compliance with laws and

Authority	• Controllable risks	documents • On-site and off-site supervision	operating with integrity • To strengthen corporate governance
Shareholders and Investors	• Increase shareholder returns • Improve profitability • Preserve state-owned assets and appreciation • Fully be informed of the business situation	• Shareholder annual general meeting • Regular announcement • Performance briefing	• To formulate and implement development strategies • To improve corporate governance • To strengthen risk management • To improve information disclosure transparency
Employees	• Provide employment opportunity • Guarantee fair treatment and well-being • Provide a good working environment • Establish an effective communication mechanism • Provide opportunities for staff development	• Workers Congress • Trade unions • "Highlights" Platform	• Protect employees' health and safety • Organize cultural and sports events for employees • Protect the basic rights of employees • Provide job skills training
Customers	• Provide quality financial services • Provide quality financial products • Provide complete, true and accurate product service information	• Business outlets • Internet banking • Marketing activities • Salon lecture	• Provide convenient and fast financial services • Provide diversified financial products • Timely release product and marketing announcements • Strengthen financial security at business outlets and electronic channels
Society	• Caring for vulnerable groups • Carry out charity activities • Educate and train people's financial knowledge	• Field visits and public condolences • Cooperation with non-profit organizations	• Provide external donations • Help vulnerable groups • Carry out financial education • Organize public welfare activities
The Environment	• Save energy resources • Developing a low-carbon economy	• Green credit • Green office • Environmental protection	• Practice green credit • Advocate green office • Carry out environmental protection and public welfare activities
Media	• Regularly disclose information	• Publish reports regularly	• Disclose and report important information through multiple channels (e.g. holding a press conference, organizing joint interviews, and issuing press releases
Suppliers and partners	• Obey business ethics • Open, fair and just procurement	• Public procurement information • Negotiation, exchange	• Establish and improve supplier management mechanism • Establish and maintain supplier information database • Strengthen communication and contact with suppliers

Source: Adapted from Bank of Jiangsu's Social Responsibility Report 2019 (pp.12-13)

The bank has also published its social responsibility performance in its CSR reports. Table 5.2 is the bank's CSR performance over the five years, compiled by the researcher from three CSR reports of 2019, 2018 and 2017. The social responsibility performance indicators cover three broad elements of economic indicators, social indicators, and environmental indicators. However, the indicators are largely dominated by operational and economic performance.

Table 5.2: CSR performance of Bank of Jiangsu (2015 - 2019)

社会责任绩效 Social Responsibility Performance						
指标类型 (Category)	指标名称 (Indicators)	2019	2018	2017	2016	2015
经济指标 (Economic Indicators)	总资产 (Total Assets)	20,650.58	19,258.23	17,705.51	15,982.92	12,903.33
	营业收入 (Operating Revenue)	449.74	352.24	338.39	314.56	280.47
	存款总额 (Total Deposit)	11,854.80	10,933.27	10,078.33	N/A	N/A
	贷款总额 (Total Loans)	10,404.97	8,892.09	7,472.89	6,493.80	5,617.83
	归属于母公司股东的净利润 (NPASPC)*	146.19	130.65	118.75	106.37	95.05
	纳税总额 (Total Tax Paid)	67.18	60.2	52.76	63.76	52.07
	总资产收益率 (ROA) (%)	0.75	0.72	0.71	0.74	0.82
	净资产收益率 (ROE) (%)	12.65	12.43	13.72	14.47	15.72
	不良贷款率 (NPL Ratio) (%)	1.38	1.39	1.41	1.43	1.43
	资本充足率 (Capital Adequacy Ratio) (%)	12.89	12.55	12.62	11.51	11.54
	拨备覆盖率 (Provision Coverage) (%)	232.79	203.84	184.25	180.56	192.06
社会指标 (Social Indicators)	营业网点数(个) (No of branches)	536	540	538	541	534
	自助设备数(台) No of self-service equipment	1,539	1,638	1,695	2,138	2,074
	小微企业贷款余额 Loan Balance for Small and Micro Enterprise)	3,967.00	3,635.00	3,130.30	2,692.00	2,265.00
	涉农贷款余额 (Agricultural Loan Balance)	1,653.00	1,393.00	1,463.30	1,287.00	1,178.00
	员工总人数 (Total No. of Employees)	15,116	14,866	14,662	14,409	14,046
	员工人均培训时长 (Training Time Per Employee) (hours)	149.28	104.64	122.88	126.39	107.38
	女性员工比例 (Proportion of Female Employees) (%)	55.37	55.74	56.73	57.06	57.62
	公益捐赠 (万元) Charitable donations (10000 RMB)	1,797.68	1,248.72	1,466.58	1,933.57	1,337.00
环境指标 (Environmental Indicators)	绿色信贷余额 (Green Credit Balance)	860.00	796.00	670.00	467.00	243.00
	个人网银交易金额 (Personal Online Banking Transaction Amount)	6,327.26	7,632.37	8,116.40	7,859.12	6,759.60
	手机银行交易金额 (Mobile Banking Transaction Amount)	20,182.72	14,908.39	7,349.81	4,566.36	1,656.77
	公司网银交易金额 (Corporate Online Banking Transaction Amount)	44,262.33	42,869.21	53,141.95	85,040.22	53,550.03
Note: * NPASPC - Net Profit Attributable to Shareholders of the Parent Company						

Source: *Based on Bank of Jiangsu's CSR reports (2019, 2018, 2017).*

One of the aspects that Bank of Jiangsu has stressed in its social responsibility is supporting inclusive finance. Inclusive finance is an important financial development policy set up by the Chinese government and increasing being a part of a bank's

CSR priorities since a decade ago (Fungáčová & Weill, 2014). Particularly Chinese banks have progressively adopted digital technology in promoting inclusive finance (Hao, 2017; Hasan, Yajuan, & Khan, 2020). The bank claims that it has always put the development of inclusive finance as part of corporate strategies and provided deepen supports for small and micro enterprises and private firms. In this aspect, it attempted to meet customers' needs by developing safe and convenient financial services at the fingertips of customers. In Table 5.2, it shows an increase in loans to small and micro enterprises over the years.

Its more recent social responsibility engagement covers poverty alleviation and environmental protection. The poverty-reduction programmes, which have been ongoing in China for decades, are likely to lead to further development of the financial sector in the long run (Ho & Odhiambo, 2011). The bank reported in its Social Responsibility Report (2019) that Bank of Jiangsu guided business organisations to increase their focus on financial resources in key areas of poverty alleviation and weakness fields. It was reported that at the end of 2019, the Bank's poverty alleviation loan balance exceeded RMB 24 billion, helping over 9,000 poor people to file special poverty alleviation support cards. The Bank organised two batches of key poverty alleviation projects in Northern Jiangsu for evaluation with a total investment of nearly 7 billion RMB yuan.

Regarding managerial responsibility, it reports that: "Senior management personnel of the Company are directly responsible for the Board of Directors of the Company. Within the reporting period, nomination and remuneration committee under the Board of Directors enhanced evaluation on senior management personnel in terms of compliance operation, risk control, management benefit, development transformation as well as social responsibility indicators and personal indicators in accordance with supervision requirements and the Remuneration Assessment Method of Senior Management Personnel of the Bank of Jiangsu" (Annual Report, 2017, p.101). Bank of Jiangsu received the Best Green Finance Award for Social Responsibility of China's Banking Sector of 2016 that was awarded by China's Banking Association. It also received the Best Social Responsibility Award for Chinese Listed Company of 2017 from 21st Century Business Herald.

5.4.3 The adoption of the EPs

In January 2017, Bank of Jiangsu announced the adoption of the EPs and became the first domestic city commercial bank adopting the EPs. The adoption was based on the purpose of perfecting social and environmental risk management by following international standards and promoting sustainability.

In order to implement the EPs, a dedicated team has been formed, which comprises the Green Finance & PPP[44] Department in the headquarter, a designated EP manager at each tier-1 branch, and the relevant Relationship Managers at subbranches. The Green Finance and PPP departments in the headquarters are responsible for the implementations of the EPs in specific projects and project management and integrating the EPs into the bank's social and environmental risk management framework. Both departments were responsible for developing the principles, guidelines, and management details of implementing the EPs, training staff regarding the application of EPs, reporting and disclosing the EPs implementation and information.

The EPs implementation and EPs project management fall in the remit of the Green Finance and PPP Department of the Bank of Jiangsu. The Department's responsibilities to the EPs include:

- To integrate the EPs into the environmental and social risk management risk framework of the Bank.
- To draw up guidelines and procedures of EPs implementation and EPs project management.
- To provide the bank staff with EPs-related training, communications and information disclosure.

The Jiangsu Provincial Ecological Assessment Center was hired to assist in the environmental and social risk due diligence and provide recommendations on mitigation/remedy actions in order to comply with the EPs. The Bank established its comprehensive policies and structure for the EPs implementation. To implement the EPs, the bank has undertaken the following:

[44] PPP refers to public and private partnership. Banks are required by China's Ministry of Finance to set up PPP funds to support key projects or major projects at the provincial, city, and county (district) level that meet the requirements of national industrial policies, environmental policies, and regulatory authorities.

- Issued the Guideline on the EPs Project Management and Credit Procedure.
- Launched the development of the EPs project management system. The first stage deliverable has been completed, which allows for automatic screening of projects that the EPs apply to. All the EPs projects have been labelled in the Bank's credit process system. The Bank is negotiating with external consulting firms to execute other development deliverables.

In the Bank's Annual Report (2017), it states: "The Company focused on high-quality service real economy, continued to increase its efforts in launching public loans, and accurately supported the advanced manufacturing industry; adopted the equator principle to initially set up the green finance product system in four sectors including "basic credit, green funds, carbon finance, and specialized financing". Transaction Banking Department was established to promote transaction banking services such as supply chain finance, cash management, and electronic banking. The corporate deposits witnessed steady increase and the ratio of current deposits was raised. As of the report period, the balance of corporate loans of the Company was RMB 485.4 billion, increased by 12.4% on a year-on-year basis. The balance of manufacturing industry exceeds RMB 100 billion, and advanced manufacturing industry loans accounted for 26.5% in the manufacturing industry loans, increased by 5.7% on a year-on-year basis. The balance of green credit was RMB 66.97 billion, increased by RMB 20.23 billion during the reporting period; green credit loans accounted for 13.8% in corporate loans, increased by 3% on a year-on-year basis. The number of corporate credit holders, corporate effective accounts, and listed company customers was respectively increased by 20.5%, 20.7%, and 25.7%" (Annual Report 2017, p25).

In the Discussion of and Analysis on Business Condition of the Annual Report (2017), it states that: "The Equator principles and requirements shall be fully implemented, and the green product system shall be improved continuously for green finance. Stable growth in international settlement services shall be maintained and international business intelligence shall be promoted for cross-border finance" (Annual Report 2017, p.41).

In 2018, Bank of Jiangsu conducted an appraisal of the applicability of the EPs for 22 projects, involving a total investment of approximately 8.73 billion yuan. Five loan contract projects signed with a total investment of approximately 1.85 billion yuan. As of the end of 2018, there were a total of 12 projects applying the EPs, and the total investment involved was approximately 6.3 billion yuan, according to the Bank's Social Responsibility Report (2018). In the latest social responsibility report (2019), the bank has just used a half-page of total 43 pages to report on its EPs performance. It states: "Since adopting the Equator Principles, we have gradually improved the environmental and social risk management system and conducted pre-loan independent third-party environmental and social risk assessments for high-risk projects. In 2019, 42 projects were evaluated for applicability of the Equator Principles project, involving a total investment of about 34.7 billion yuan, and a third-party evaluation of 2 projects applying the Equator Principles, involving a total investment of about 990 million yuan" (translated from Bank of Jiangsu's Social Responsibility Report, 2019, p.27). In Bank of Jiangsu's 2017 Corporate Social Responsibility Report, it reported that in that year Bank of Jiangsu implemented the EPs to seven financial projects with the total investment value of 4.45 billion RMB. Comparing these figures over the three years, there was an increase in both the number of EP projects and the total investment.

5.5 Bank of Huzhou Co. Ltd. (China)

5.5.1 Introduction of Bank of Huzhou Co.

Bank of Huzhou was established in 1998 and it is a local joint-stock commercial bank mainly operated in Zhejiang Province of China. The main business operations cover the regional small and micro-financing, science and technology financing, and green financing. With the total asset of about RMB44 billion the bank has over 58 outlets and over 1,000 employees operating in the city of Huzhou and Jiaxing within Zhejiang Province. Zhejiang is a well-developed province in China with many SMEs and well-developed infrastructures.

5.5.2 CSR in Bank of Huzhou

As a small local bank, Bank of Huzhou has mainly focused on the development and growth in green finance, supporting the local economy. Bank of Huzhou as a local bank in the country's national green finance reform pilot zone, has taken the development opportunities and developed the sustainable development plan with a view to promoting China’s sustainable development, particularly supporting SMEs and green finance projects. In 2016, the bank launched its Green Finance three-year strategic plan and developed annual green finance action plans, which include green finance development goals, targets, the establishment of the green finance management system, capacity-building, product innovation and green branding etc. Since 2016, the bank has taken the strategic opportunities of developing the Huzhou National Green Finance Reform and Innovation Pilot Zone. It has created the “gold business card” of green finance. As of the end of June 2019, in accordance with local standards, the bank's green loan balance was RMB 8.813 billion, accounting for 28.26%[45] of its total loans.

Adhere to the strategic guidance of following the path of green financial development, Bank of Huzhou set up the development goal of "creating a first-class green finance demonstration bank at home and abroad" at the corporate strategic level. At the operation level, the Bank annually issued the "Implementation Plan" and "Promotion Plan" to clarify the development path and have more specific goals and measures.

The bank has published its corporate social responsibility report since 2008[46]. The latest CSR report was published on 20 April 2020. Overall, CSR reports are much brief as the 2008 report has 12 pages, and the 2019 report has 11 pages. The reports were only published in Chinese. By and large, the reports are mostly policy-telling with little quantitative data on performance targets, although there are some data on the input and activities. There is no indication of benchmarks or guidance used for preparing the CSR reports. Over the years, the reports largely follow the same structures and there is no evidence of substantial changes in the disclosure format.

[45] According to the report entitled “Take the Equator Bank as a new starting point to accelerate the creation of a green financial benchmark” published on 24 July 2019 by the Bank (http://www.hzccb.net/portal/zh_CN/home/xwdt/1496.html) (Accessed on 2 May 2020)

[46] Only the 2018 CSR report was not missing from the bank’s website (http://www.hzccb.com/portal/zh_CN/investor/shzrbg/index.html) (Accessed on 2 May 2020)

5.5.3 The adoption of the EPs

On July 24th, 2019, Bank of Huzhou officially announced the adoption of the EPs and became the third EPs bank in China. This adoption turns a new chapter in Bank of Huzhou's practice of green development concepts and deep cultivating green finance. Its aims to combine the EPs' environmental and social management mechanism with micro-finance, fostering the implementing of sustainable practices in SMEs finance. Also, Bank of Huzhou aims to innovate and reform the environmental and social risk management system to ensure it is suitable for small and medium banks by adopting and implementing the EPs. This innovative environmental and social risk management system contains a full process assessment and IT management network, quantifying environmental performance data, and practising systematic green monitoring management as reported on the website of the Bank. Furthermore, Bank of Huzhou is among the first batch of Chinese financial institutions to join the China-UK Environmental Information Disclosure Pilot Programme[47] for the purpose of exploring and implementing an environmental information disclosure[48] mechanism, which is more practical and replicable for smaller banks. In addition, Bank of Huzhou joined UNEP FI (United Nations Environment Programme Finance Initiative[49]) intending to learn more about and

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[47] This initiative was announced at the 9th UK-China Economic and Financial Dialogue in December 2017 with the PRI (the Principles of Responsible Investment) that is an investor initiative in partnership with UNEP Finance Initiative and UN Global Compact and six signatories at the time. The pilot is a three-year initiative with financial institutions from China and UK, including representatives from the People's Bank of China (China's central bank) and the Bank of England, the City of London. The initiative seeks to support enhanced information disclosure practice in both countries. The purpose of the pilot is to: "establish a platform for peer exchange on climate and environmental risk disclosures between UK and Chinese financial institutions; raise awareness of the materiality of climate and environmental risk factors and build capacity in both countries; and pilot disclosures against an agreed action plan on an annual basis before the UK-China Economic and Financial Dialogue" (https://www.unpri.org/climate-change/progress-report-on-uk-china-climate-and-environmental-disclosure-pilot/3875.article). Accessed on 2 May 2020.

[48] Under the Pilot Program of UK-China Climate and Environmental Information Disclosure in 2018, all three EP adopting banks in China, who are also signatory of the Pilot Program are agreed to take some actions including: 1) by 2019, the environmental impact of 2018 green credit (based on the approach of CBRC) had to be disclosed. On the basis of CBRS's measurement methods, basic data was sorted out and qualified data was disclosed step by step. 2) by 2020, relevant environmental risk information of power, cement, and electrolytic aluminium industries (based on the scenario analysis or stress testing methods) is disclosed according to the situation of pilot institutions. 3) by 2021, pilot financial institutions will be encouraged to further expand the industries covered by environmental information disclosure according to their business characteristics and optimise environmental risk analysis methods and disclosure indicators. 4) efforts will be made to increase the number of financial institutions that engage in environmental information disclosure. The details of action plan for environmental information disclosure by pilot commercial banks in China are given in Appendix 1.

[49] United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 350 members – banks, insurers, and investors – and over 100 supporting institutions – to help

exchange green finance practices with other institutions to further strengthen the Bank's green finance management system, particularly promoting green finance among small and medium banks and SMEs. Due to the latest joining the EPs, little information is available on the implementation and impact of the EPs adoption on the operations and performance of the Bank.

5.6 Summary

Bank's sustainable development is closely related to CSR. Since corporate sustainability is a source of competitiveness, banks need good sustainability management, which includes efforts to improve their environmental or social behaviour, namely, the fulfilment of social responsibility. CSR is the means of adapting the current sustainable development framework in the process of banking sustainable development. The EPs are international initiatives promoting environmental sustainability for projects financed by financial institutions. The adoption of the EPs is considered as a recognised label to demonstrate a financial institution's commitment toward sustainable development in general and environmental protection in particular. Studying CSR and banking sustainable development helps provide an understanding of how banks' sustainability can be achieved.

This chapter presents a descriptive analysis of three case banks that have adopted the EPs. The case study covers an introduction to the individual case bank, a case bank's CSR and the adoption of the EPs. The justification for the case study and an overview of the case study were given in Section 5.2. The next chapter reports the findings of the interviews. All three banks are non-state-owned, and they are all joint-ventures with a focus of local markets and industries, although the Industrial Bank is relatively big and has a nationwide market. All three banks have produced CSR reports and sustainability reports for many years, indicating their recognition of the importance of social and environmental issues and sustainable development for banks. However, three banks have different paces in terms of adopting the EPs and there are quite differences in terms of information and details provided by the case banks on CSR and the EPs. The Industrial Bank provided more information on

create a financial sector that serves people and planet while delivering positive impacts (https://www.unepfi.org) (accessed on 26 December 2020).

projects financed under the EPs and has a long history of CSR reporting. Bank of Huzhou as one of the small banks joined the EPs institutions just a year ago. It is impossible to see any change to the bank's operation and performance since its adoption, given the impact of COVID-19 pandemic, which has prevented many investment projects to occur. This also applies to Bank of Jiangsu as little information has been disclosed on the real effectiveness of the implementation of the EPs on social and environmental assessments of projects finance by the Bank. The next chapter reports on the perceptions of bank managers and insiders on the factors influencing the adoption of the EPs and the potential benefits of adopting the EPs to a bank.

Chapter 6 Interview Findings

6.1 Introduction

This chapter presents the findings of the interviews. As explained in Chapter 4, 15 interviews have been conducted with a view to gaining an insight into the factors influencing the adoption or non-adoption of the EPs in Chinese banks. This primary data collection through the interview is very valuable as there is no other existing data available and this study is the first study of its kind. The interviews also support the case studies conducted and reported in the previous chapter.

This chapter is organised as follows. The next section is concerned with the overall analysis of interview approaches. The following sections present the responses and analyses of interview questions, covering the importance and driving forces of China's CSR and sustainable development, ways of banks engaging in CSR and promoting sustainable development, key areas that banks play in promoting sustainable economy, benefits of adopting the EPs, institutional factors influencing the adoption of the EPs, and other related issues. Section 6.9 is a summary of this chapter.

6.2 The Importance and Driving Forces of China's CSR and Sustainable Development

The first main question asked relates to the importance of CSR and sustainable development. The respondents were fully aware of the increasing demand from stakeholders on CSR and protecting the environment. Sustainable development has been widely publicised in China and all the interviewees know the concept reasonably well. However, it should recognise that in terms of CSR, China may have different interpretations of CSR and sustainable development. For example, serving the interest of China's ruling political party is the ultimate objective of banks' function (Heilmann, 2005; Lin, Tan, Zhao, & Karim, 2015; Zhou, Arndt, Jiang, & Dai, 2020), which defines CSR, CSR performance measures, and the strategies for sustainable development.

6.2.1 The role of government in directing CSR and sustainable development

Several interviewees (e.g., interviewees 2, 4, 5, 9, and 11) refer to Chinese governments, industry regulators and stock exchanges' efforts in the past to promote CSR and sustainability and they believed that the government will be the main determinant in directing China's CSR. It was mentioned that the banking industry and China stock exchanges also promote CSR principles and practices to Chinese financial institutions as it makes the institutions more innovative, productive, and competitive. Broadly, respondents identified that CSR helps make Chinese banks more competitive by "supporting operational efficiency gains", "improving customer relations", "enhancing social and environmental risk management", "promoting favourable relations with the wide range of communities", "raising corporate reputation", "holding an enhanced licence to operate". The importance of having a good record of CSR can be very important for senior managers to be promoted in their career as CSR performance is often linked with managers' performance evaluation. The support of the role of governments and political connections in the CSR engagement of Chinese businesses is largely consistent with the prevailing literature (e.g., Li, Song, & Wu, 2015; Lin et al., 2015; Cumming, Hou, & Lee, 2016; Zhou et al., 2020). For example, it was shown in Zhou et al. (2020), in China the creation of Communist Party of China (CPC) branches in privately owned firms serve as organizational and institutionalized dimensions of political connection building. This also applies in all the cases of this study. All banks and financial institutions, regardless of their ownership structure, have established CPC branches, which command all the members of CPC in an institution. Most of those members hold important positions (as senior managers, middle-rank managers, or division leaders) in a bank or financial institution. They are required to follow orders from the CPC and implement the CPC policies all the time.

6.2.2 The public interest in CSR

The importance of CSR to financial institutions is evident in the increasing awareness in the demand from the public on green products such as green mortgages, ethical investments, inclusive finance, and financial supports for smaller and micro-firms. The interest from the public has increased substantially since the beginning of this century when China faced the problem of heavy air pollution and environmental deterioration. One interviewee commented: "… it is certainly the public showing great interests in CSR that has driven the society to care about the environment and social concerns. In our bank, we have done a lot to meet the public' demand for better CSR. Of course, what should be included in CSR is rather subjective as different people have different interests" (Interviewee 13).

6.2.3 Banks' interest in CSR

Also, banks have shown their interest in CSR to ensure the long-term viability of a borrower's business in the context of ensuring loan repayment, which can often be contract over lengthy periods and subject to social and environmental risks faced by the borrower. Banks have put some measures to evaluate the social and environmental risks of loans they provide. It is widely believed among the interviewees that the impact of and risk posed by environmental and climatic factors are increasingly important for the markets and financial institutions. It was raised that social and environmental information disclosure may help financial institutions improve the ability to assess and manage these risks. One interviewee particularly referred to the use of scenario analysis by saying that "… conducting scenario analysis or environmental stress tests could help financial institutions, particularly private-owned banks to measure the exposure to environmental risk factors as well as the environmental impact of financial institutions' own business, investment and financing activities" (Interviewee 9).

CSR implies that bank corporate performance is judged not just by the services, financial provision and benefits that banks make, but also by the impacts they have on social well-being and the local and global environment. A bank manager expressed that: "…investing in environmental sustainability and engaging in CSR is part of the bank's responsibility" with "full integration of CSR into our business model" (Interviewee 11). However, "CSR principles in China may be different from the expectations from other countries. You can see the recent effort of our staff contributing to the control of coronavirus outspread in China can be regarded as a broad aspect of our CSR. People making donations are also part of CSR engagement” (Interviewee 11). The researcher met his director of operations of a state-owned bank. The director responded very much positively on the aim of the bank involved in the CSR initiatives. “The bank aims to alleviate major social needs and to operate in alignment with the sustainable development objectives set up by the government” (Interviewee 1). On several occasions, interviewees consider the government’s policies as the main driving force behind the CSR initiatives and engagements of Chinese banks. This is in line with the existing literature (e.g., Xu, 2011; Wei et al., 2017; Shi and Xu, 2018).

6.3 Ways of Banks Engaging in CSR and Promoting Sustainable Development

In terms of ways that banks engage in CSR, several respondents indicate the finance they provide should be used for socially and environmentally friend projects. This is due to the function of banks as intermediaries. “For a state-owned bank like us, the best way to contribute to sustainable development is to devoting capital and funding-specific initiatives towards socially and environmentally friendly projects, and in particular projects supporting SMEs and rural industries” (Interviewee 1).

“As a state-owned bank, we are going beyond adhering to specific requirements set up by the authorities in terms of our social and environmental responsibilities. We recognise that identifying and quantifying as well as managing environmental risks should be part of the normal process of risk assessment and management in our lending operations. In fact, considering our customers, we regard compliance with applicable environmental regulations and the use of sound environmental assessment approaches as important factors in showing our effective corporate management” (Interviewee 1).

To promote CSR and sustainable development, all employees within an organisation should be involved and this needs to be part of overall CSR management. The deputy branch manager of Industrial Bank explains that: “Applying the integration model the employees understand the importance of CSR. The bank combined the performance of social responsibilities and various banking businesses in an organic way, which guide management and operation activities with the active engagement of CSR (Interviewee 8). There are many ways that a bank can engage in CSR, although as a financial intermediary the main function of a bank is to distribute capital, which should support the sectors and borrowers who promote the social and environmental welfare of the society. Due to time constraints, there were no details given by interviewees on specific ways for a bank to engage in CSR and sustainable development. However, it is recognised in the literature that China's government encouragement and intervention at Chinese firms leads to greater CSR engagement (Kao, Yeh, Wang, & Fung, 2018).

6.4 Key Areas that Banks Play in Promoting Sustainable Economy

6.4.1 Inclusive finance

Inclusive finance[50] was mentioned by most respondents when they were asked the key areas for banks to play in promoting sustainable development of an economy and contributing to CSR. In China, the concept of inclusive finance has been very popular (Han, Wang, & Ma, 2019) and there was a policy from the government encouraging financial institutions to consider those people who have some difficulties to access to financial products and who require financial support that helps them to develop their business ideas and funds to start up (Sparreboom & Duflos, 2012). In the three case banks, inclusive finance has been treated as part of the core dimensions of their CSR and the banks all aimed to support financial inclusion. In their CSR reports, inclusion finance activities have been disclosed.

[50] As a concept, inclusive finance refers to financial inclusion, which means universal access, at a reasonable cost, to a wide range of financial services, provided by a variety of sound and sustainable institutions. According to the UN, "inclusive finance strives to enhance access to financial services for both individuals and micro-, small and medium-sized enterprises. In developing countries, access to financial services is crucial to strengthen financial sectors and domestic resource mobilization and can therefore make a significant contribution to social and economic development. Much more focus on the particular financial needs of women can have enormous impact, given the importance of women in food production and household expenditure decisions" (https://www.un.org/esa/ffd/topics/inclusive-local-finance/inclusive-finance.html). China has recently promoted this concept widely among its financial community.

Financial inclusion is now part of the social commitments of a bank, and this is especially important for a bank that is based in less-developed areas where many poor people who have less access to financial support (Sparreboom & Duflos, 2012; Chen & Jin, 2017). A bank director comments: “In addition to the important effort of our bank in microcredits in rural areas, we are using easy-to-open accounts and operating many digital products that promote financial inclusion. In areas with low banking access such as in rural counties, these are the best products to enhance savings and financial supports, especially for those poor peasants. As a bank, we have tried our best to bridge the gap between financial products offered and local population needs. Of course, we as a bank are subject to many regulations in terms of loan and interests and we are controlled and regulated by the banking supervisory regime, which can constraint what we can do in the social inclusion and other CSR aspects” (Interviewee 2).

Sustainable development is well linked to inclusive finance and inclusive finance is deeply connected to equality and social-economic development. Banks play important roles in promoting inclusive finance. China has done well in applying financial technology to banking services and promote inclusive finance (Hasan et al., 2020).

6.4.2 Poverty alleviation

In 2016, China’s government initiated a nationwide campaign aiming to eliminate poverty in China by 2020. Since the campaign, over 20 per cent of listed companies in the country have made significant contributions to poverty alleviation (Chang, He, & Wang, 2020). Banks have greatly contributed to this campaign as reported by all three case banks. The interviewees have also referred to poverty alleviation as a key area that their organisations have contributed, including money donation, goods and services donation, developing poverty alleviation projects in rural poor areas, providing training and education programme for those poor people, and special financial products and services for qualified people. Several respondents provided some examples of their support to poverty alleviation and felt their contribution has helped the poor people to move out from the poverty grouping.

6.5 Benefits of Adopting the EPs

The literature has identified two main benefits for a financial institution to adopt the EPs (e.g., Scholtens & Dam, 2007; Eisenbach et al., 2014; O'Sullivan & O'Dwyer, 2015; Chen et al., 2018). Both appear to be instrumental motivations in that they allow the adopting banks to advance their interests. The two main benefits are 1) the management of the credit risk inherent in project financing, and 2) the mitigation of the reputational risk of being associated with projects that result in negative social and environmental impacts.

6.5.1 Proving learning opportunities

Interviewees from the three EP adopting banks have highly valued the opportunities available for the participating institutions to exchange information and learning experience on implementing the EPs with peers from other markets, particularly from developed countries. This has provided an opportunity to see the same issues from a different vantage point. One interviewee comments: "… by joining the adopting institutions, we have an opportunity to learn from others on the implementation of the EPs in project finance. This is very important for us as a small bank without much experience in green finance and environmental risk assessment of project finance" (Interviewee 6). One interviewee responds: "Since we join the EP financial institution club, we have taken all the opportunities available to attend seminars, conferences, and workshops under the umbrella of the EPs. We feel this is important for us to learn, to share and to build a business network, which increases our reputations" (Interviewee 15).

The interviewees from adopting banks emphasised the importance of having an opportunity to communicate with big banks from other countries to learn from them. As shown in all three banks' reports, they have all attended EPs seminars and workshops and taken part in exchanging experiences with other banks. For private and small banks in China, this is very important for senior managers of banks to have an opportunity to develop a link with large international banks.

6.5.2 Promoting CSR and long-term sustainable development

Several interviewees mentioned the benefits of joining the EPs are to promote CSR and long-term social and economic development. People see the EPs is a tool to perform CSR with a focus on the assessment of social and environmental risks of project finance. As the EPs represents a potential real-world example of CSR, which is considered as a voluntary framework for determining, assessing and managing environmental and social risk in project finance, the benefits of adopting the EPs should reflect the potential consequences of social and environmental risk management. It would expect that the financial institutions that adopt the EPs will better manage environmental and social risks of the funding they provided, ultimately protecting the environment and promoting a better society.

"*My understanding of the purpose of joining the EPs adopting financial institutions was to enable us to better fulfil our social and environmental responsibility and to achieve our long-term sustainable development. In our bank, senior managers have put high importance on the establishment of a systematic approach to the implementation of the EPs from top to bottom. We have established a dedicated team with full-time staff members to the responsibility of assessing environmental and social risk with a view to implementing our bank's environmental and social risk management policy. This team also provides policy guidance for the implementation of the EPs to help our employees when they require. This has been quite effective in many cases as most of our employees do not have much knowledge of the EPs and environmental risk assessment in project finance and lending*" (Interviewee 9).

One interviewee from an EP adopting bank commented that: "*In our bank, we have established the philosophy of putting CSR as a core of our business model. I remember it is basically shifting from previously shareholders' interests foremost to nowadays giving consideration to the interests of all stakeholders and to ensure there is a harmonious unification of three dimensions including economy, society and environment. We have the purpose of promoting the sustainable development of the bank. I think this philosophy helps us define what we can and what we will do, particularly in our main lending business. This ensures us to achieve our objective of becoming sustainable finance and meeting the EPs*" (Interviewee 3).

Adopting the EPs will raise the awareness of environmental issues and environmental disclosure. As shown in the case studies in the previous chapter of all three adopting banks, three banks have a long history of publishing their CSR or sustainability reports. It is possible through meetings, seminars, financial institutions' participation and publication of CSR reports strengthening financial institutions' understanding of the EPs and realising the potential benefits of adoption. It can help build capacity for the application of environmental risk quantification methods and better evaluation of the long-term social and environmental impact of projects financed by participating financial institutions. One interviewee responds: "As we joined the club and attended seminars and conferences, our bank name increasingly appears in the international press. This is good from a business perspective. Also, this will increase the support from a wide range of stakeholders" (Interviewee 15).

6.5.3 Raising corporate reputation and risk management profile

Another benefit mentioned by respondents is to raise corporate reputation and banks' risk management profile. Most interviewees believe a bank's overall reputation and brand may benefit from the adoption of the EPs. The risk management capability (particularly as to social and environmental risk management) of an EPs adopting bank is usually rated higher than a non-adopting bank. The adoption is usually undertaken by financial institutions that pay a lot of attention to assessing social and environmental risks of project finance. The adopting bank can use their status of an EPs adopting institution to signal their corporate reputation and risk management profile to the public to attract more attention, which can have a positive impact on the profile of the bank and receive more borrowing requests from customers. Clearly, a bank's overall reputation and risk management profile may benefit from the adoption of the EPs (Chen, Huang, & Lin, 2018; Contreras et al., 2019). Also, by adopting the EPs, a bank may be able to differentiate itself from those non-adopting institutions in its CSR and risk management aspects (Contreras et al., 2019). A good label is important for small and less-known banks as it helps to expose the banks to the public.

The EPs as a tool can help financial institutions to advocate fair competition among different banks facing different reputation risks in project finance. It is especially important for small private banks without high reputations to join the adopting institutions to gain reputational benefit so they can compete with other large and state-owned banks for project finance. Every bank faces reputational risk if it finances a project that results in a social or environmental catastrophe. In a big project that involves several banks, each of them would presumably be better off avoiding such catastrophe. Apparently, it would be impossible for a small bank to act alone. Therefore, an agreement to fair competition such as adopting the EPs will avoid this problem by eliminating the commercial disadvantages for any bank when several banks jointly contribute to financing a project.

One interviewee commented that: "*a financial institution has a big incentive to manage the credit risk of their investment carefully to ensure to have zero non-performing loans and the borrower to repay the loans on time. No doubt, a project that creates environmental degradation or social negative consequence exposes the borrower to liability. In China, the borrower could incur a large amount of financial punishments for violating local environmental laws and legal expenses for defending against these lawsuits*" (Interviewee 14). Therefore, adopting the EPs will help the financial institutions to avoid and mitigate these risks.

Also, adopting the EPs likely represents a way to boost the adopting bank's legitimacy in the context of large-scale infrastructure project financing and allows them to counter critics of large development projects by defending their capability to manage the risks involved in those large projects (Finger et al., 2018; Contreras et al., 2019).

6.5.4 Changing banks' corporate culture

Respondents also think the adoption of the EPs can lead to real change in the culture of banking institutions by equipping the employees and managers with the moral, ethical and environmental sensibilities and deep engagement in the process of the business services to meet the EPs demand. First, employees in an adopting bank have an opportunity to learn the principles and understand the importance of social and environmental implication of their lending to large projects. Second, through the implementation of the EPs, the whole organisation will have an opportunity to co-ordinate the social and environmental risk assessment involved in project finance, which provides sharing experiences within the organisation. Third, there expects to have a herding effect as the adopting financial institutions present themselves as a model in following the international initiative, which will influence other financial institutions within the industry. The above expect to change the culture of an adopting bank and even the whole industry by promoting the awareness of social and environmental risks of the bank's operation and lending as well as shifting the shareholders' focus to balancing the different interests of stakeholders. One interviewee commented that: "I think the experience with the EPs will be leading to real change, in some situations, rapid change in the culture of China's banking sector. As we all know, CSR was imported from the West and now it is widely adopted by Chinese banks, which has changed the traditional focus of shareholders' interest to a wide range of different stakeholders. I would think the same will apply to the introduction of the EPs to China's banking sector" (Interviewee 11).

Another benefit in adopting the EPs relates to the impact on other financial institutions. Project finance typically involves syndicated loans, the presence of an EP adopting bank should cause the non-adopting banks within the syndicate to either raise their social and environmental review processes to a level closer to compliance with the EPs or otherwise benefit from the greater level of oversight required by the principles under the EPs. "As a bank manager, I believe as an adopter of the EPs we should try our best to syndicate loans with other adopters than with non-adopters if in China we have more adopters in our sector. Unfortunately, up to now, we have no choice, but to syndicate loans with non-adopters" (Interviewee 2).

Conley and Williams (2011) argue that it is "possible that experience with the EPs is leading to real change—in some cases, rapid change—in the culture of banking organizations. In fact, it could be the case that the moral and ethical sensibilities of employees and managers are being more deeply engaged by the reflective processes the EPs demand." Many types of social and environmental risks that are considered externalities in the past in banks' conventional lending (such as environmental disaster and consequences, social unacceptance, local community conflict, and non-compliance with local culture and traditions etc.) may become directly significant to project finance since they could put a bank at risk if they cause a project to be delayed or shut down, as a result, the borrower cannot repay the loan.

As it is known, a bank's return on investment for any project it finances may actually depend on the proper management of the specific social and environmental issues that are inserted into the project's risk profile. Thus, a bank has a large incentive to manage the risk of their investments carefully to ensure the project to have no or very low social and environmental risk and eventual repayment of the loan by the borrower.

6.6 Institutional Factors Influencing the Adoptions of the EPs

The focus of this study is on the institutional factors influencing the adoption and non-adoption of the EPs by Chinese banks.

6.6.1 Stakeholders determining the adoption of EPs

The interviewees were asked on the influence of stakeholders on the adoption of the EPs. Most interviewees have indicated the influence of governmental policies that plays a vital role in banks' decision to adopt the EPs. In China, the influence of government is very strong in the banking sector due to the control of lending policies and the dominance of state-owned banks in the banking sector. In terms of government influences, people usually refer to the ruling party - the Communist Party of China (CPC). The government is determined by the policies of CPC and CSR is primarily related to social and environmental policies of the CPC.

Most interviewees also express the significance of clients' demand as the main factor influencing the three EP institutions to adopt the principles. These three institutions adopt the EPs to attract different customers and clients in order to distinguish themselves from other state-owned banks. However, other stakeholders such as local communities, employees were considered less important in influencing the decision. Shareholders play a certain role, but they are less active comparing to the customers. One interviewee comments:

"*I think the main driving forces behind the adoption of the EPs are bank managers who are keen to connect with outside and interested to learn. This is due to the changing of our sector under the pressures from external stakeholders. The world is* *now a global world and finance is no longer a pure operational issue as far as a bank is concerned. … It is a matter of integration of various issues and involves many stakeholders with different interests*." (Interviewee 14).

6.6.2 Political factor and governmental role

Political factor has been widely considered as very important to the decision of adopting the EPs. This includes the government policy and particularly the policy given by the authorities to the state-owned banks. In China, state-owned banks, comparing to privately-owned banks have less autonomy in project lending and financial provision as they have always to follow the government's guidance in terms of projects that they can support. In most cases, finance is likely to go to state-owned enterprise and infrastructure projects with support by the government as a priority. Although in many aspects the EPs clearly provides a foundation for social and environmentally friendly project investment, the scope of investment can be rather narrow and specific that is beyond the interest of the government's plan and political agenda. Both the government policy enabling green technologies and investments and investment culture of state-owned banks determine whether the EPs should be followed or not.

"*There are two questions here. One is to adopt the EPs as the adopting financial institutions or join the club. The other issue is to adopt the main principles and strategies supported by the EPs. I think most banks in China do accept most social and environmental principles recommended by the EPs as they are common to all social and economic settings…. Many of these principles also appear in other guidance and initiatives, including the regulations of China's stock exchanges. China's stock exchanges have played a very important role in our country promoting CSR and green economy, that also applies to our banking sector as most large banks in China are listed on stock exchanges. You perhaps know that the Shanghai Stock Exchange in 2008 published a policy encouraging listed companies to issue CSR reports. Our banks have annually published CSR or sustainability reports for many years*" (Interviewee 9).

It is also argued that the regulatory authorities and other key agents also play an important role in influencing the adoption of the EPs. The regulatory body – China's

Banking and Insurance Regulatory Commission (CBIRC), for example, on 30 December 2019 issued “China Banking and Insurance Regulatory Commission's Guiding Opinions on Promoting High-Quality Development of the Banking and Insurance Industries” in which it states that: “Banking financial institutions should establish and improve environmental and social risk management systems, incorporate environmental, social, and governance requirements into the entire credit granting process, and strengthen environmental, social, and governance information disclosure and interaction with stakeholders”. There is no actual mention of the EPs in the guiding opinions, but the above basic recommendation of improving environmental and social risk management and incorporating environmental, social and governance requirements into the entire credit granting process is very much in line with the EPs.

6.6.3 Investment culture

The interviewees have also mentioned the influence of investment culture and they see short-term profitable projects have driven banks’ lending direction. “Investment culture is also a factor as many clients in China invested in projects that can bring in short-term profits. The demand for this type of borrowing and loans has increased significantly, which also drives our lending direction. We, as a commercial bank, have to consider the demand of our clients and market needs. Investment culture is a big topic that influences industrial investments and capital resources distributions. As long as the clients have good credit and the projects are within the scope of permissible investment, not conflicting with laws and regulations, there is no reason for us not to lend money and finance their projects” (Interviewee 10). At the moment, it seems that investment culture in China has not developed to the level that puts social and environmental consequences as main considerations in lending and project finance. Banks are still interested in projects that maximise the return for their shareholders and follow the order from the government.

6.6.4 The cost of meeting EPs requirements

It is noted among interviewees that there will be some cost implications when a bank joins the EP adopting financial institutions club. The costs of adopting the EPs to a financial institution, that have been identified by several interviewees, include: 1) the cost of identifying the potential environmental and social risks of a project in order to categorise it following the requirement of the EPs; 2) the cost of evaluating and checking the adequacy of the reports and information provided by project finance borrowers; 3) the cost of monitoring compliance, which can be substantial depending on the nature of a funded project; 4) the costs of enforcing compliance, which is subject to a variety of factors and considerations; and 5) the overall opportunity cost of rejecting project deals that do not comply with the requirements of the EPs.

It seems that only banks that will be able to balance the cost of implementing the EPs against perceived benefits from this action will choose to adopt the principles. Banks usually engage in a cost-benefit analysis with a view to having the expected benefits in adopting the EPs outweighing the expected costs of compliance. Also, banks will most likely adopt the principles if their most salient stakeholders recognise and value the EPs, otherwise, banks choose other means to deal with their social and environmental responsibilities and they will seek legitimacy for their sustainable development agendas and adopt the EPs if this is viewed as the proper approach.

"*Initially it may see the increasing cost of applying the EPs, including an increase in the costs of evaluating potential loans and monitoring on-going compliance, which may even limit business opportunities. I think this is a factor that we have to consider when we are in a very competitive market. We compete with hundreds of banks and finance providers for good projects and we have also seen profit margins of our sector has decreased over the years. Any additional increase in costs will prevent us from considering adopt the principles*" (Interviewee 9).

The literature has recognised the impact of adding costs due to the engagement of non-financial activities including CSR by banks (Goss & Roberts, 2011). There is no question in terms of cost increase in a short term when incorporating environmental provisions in a loan agreement, the bank increases a project's transaction cost, and this cost will pass onto the borrower who constructs the project via paying high borrowing costs (Goss & Roberts, 2011; Bae, Chang, & Yi, 2018). This increase directly impacts the profits of the borrower and thereby affects its ability to repay the loan. From this perspective, it appears that adopting the EPs would be detrimental to a borrower's objective of maximising shareholders' profits and return. Also, the EPs appear to be detrimental to a bank's interest, therefore it is important to identify the incentives that encourage financial institutions to adopt the EPs.

EPFIs are also required to increase their monitoring towards firms that receive project financing from them in order to ensure their operation is eco-friendly and socially responsible. Such additional monitoring is likely to increase the cost to EPFIs. Given the higher costs and risks associated with the adoption of the EPs, those institutions that adopt the EPs are likely to be financially constrained than non-EPFIs. This could be one of the main reasons for Chinese banks not to take part in the adoption as most Chinese banks have some difficulty in liquidity and in fact the liquidity of most Chinese state-owned banks is determined by the largely uncertain government's overall policies in social and economic development (Li, 2016; Chi & Li, 2017; Chen, 2019), which include the government's policies towards the environment. Because higher environmental standard imposed on firms that receive project financing from EPFIs, the default risk is likely to be higher for commercial banks and therefore, a bank would like to have a higher level of liquidity.

6.6.5 Transparency and accountability requirement

Principle 10 of the EPs is related to reporting and transparency, which has raised the level of reporting for both the clients and the EP financial institutions. Taking the requirement for the clients as an example, the EPs require clients to "ensure that, at a minimum, a summary of the ESIA is accessible and available online and that it includes a summary of Human Rights and climate change risks and impacts when relevant" and to "report publicly, on an annual basis, GHG emission levels (combined Scope 1 and Scope 2 Emissions, and, if appropriate, the GHG efficiency ratio) during the operational phase for Projects emitting over 100,000 tonnes of CO_2 equivalent annually". At the moment, it is rather too challenging for many Chinese borrowers to follow the principle as there is a lack of 'know-how' in the reporting of these areas. Also, human rights have been controversial issues given different societies may have a different interpretation of human rights. Clearly, China's interpretation of human rights is different from the concept used in the West.

It seems that a lack of transparency and accountability in their compliance with the EPs can be a problem for the stakeholders and particularly the policymakers. At the moment, as shown in the previous chapter of case studies, three banks provided little substantial details on the EP projects and assessment of these projects' social and environmental consequences. Each bank that adopts the EPs voluntarily commits to developing its internal policies and management structures and processes to implement the EPs' requirements. Beyond this voluntary commitment, the specific requirements for an adopting bank to implement the EPs are rather unclear. As a result, it is rather too difficult for the external stakeholders to compare the conduct and performance of implementing the EPs among those adopting institutions.

The interviewees are aware of the difficulties for Chinese clients to fulfil the requirement of reporting. One interviewee explained: "As far as I'm concerned, our clients don't have basic knowledge about the EPs and don't have the expertise to accomplish the reporting requirements. Carbon reporting is still in the very early stage in China and we don't have an accounting standard on carbon disclosures" (Interviewee 6).

Indeed, one of the common challenges mentioned by most interviewees in terms of adopting and implementing the EPs is the availability of accurate disclosures from financial users (i.e., project funding receipts) on materially relevant environmental and social information to inform the providers (i.e., banks) for decision making. Therefore, it is mentioned by some interviewees (e.g., interviewees 3, 5, 7, 11) that the developments in technology and the big data[51] are very important as they can provide alternative sources of information about environmental and climate risks and their impacts.

One professional expertise in climate and environmental risk assessment comments: "*Traditionally, carbon and environmental data and information have relied on historical data. However, some environmental problems including climate change, and social problems are non-linear and will change over time. In this case, scenario*

[51] Big data nowadays is widely used in the business world. It refers to "the large, diverse sets of information that grow at ever-increasing rates. It encompasses the volume of information, the velocity or speed at which it is created and collected, and the variety or scope of the data points being covered" (https://www.investopedia.com/terms/b/big-data.asp) (accessed on 20/09/2021).

analysis, which was commonly used to inform investment and lending decision making and assessing the environmental impacts, can be applied to environmental problems and climate problems to assist banks to understand how the concentrations of risk arising from these factors would have long-term social, economic and environmental impacts" (Interviewee 4).

6.6.6 Cultural factors.

Cultural factors have been widely raised by interviewees in the interviews. Although culture can be considered much wide with different propositions. When considering adopting the EPs, there is a need to recognise the unique Chinese context concerning cultures and political systems while the existing EPs have largely been influenced by banking practices and operations from western economies. It is feasible to argue certain conditions have to be met for Chinese financial institutions to adopt the EPs. One interviewee comments: "*Culture factors should be given more attention as they are important considerations … Because the EPs was developed in Western countries and was based on the social and economic systems, which are quite different from Chinese culture. … as a result, to implement the EPs in the context of China may cause some conflicts since the EPs have built-in some value bias reflecting the ethical principles and corporate values of Westerns cultures. Our culture is quite different from that of Western countries. The recent trade war between China and the US has worsened the environment of adopting any model, practice and principle from Western countries, particularly the US*" (Interviewee 8).

Largely, it can be argued that institutional characteristics (such as China's political system and cultures) determine the adoption of the EPs. There is some evidence that failures to adapt the EPs to fit different bank and national cultures lead to project finance that became too expensive and completion delayed.

Hofstede (2001) compared the cultural dimensions of various countries. As shown in Table 6.1, China had the highest score in power distance, the lowest scores in individualism and uncertainty avoidance among these four countries. While organisational culture is largely embedded within national culture and it is arguably a unique critical factor that affects the acceptance and adoption of the EPs, particularly the EPs are a relatively new initiative and few Chinese working in the banking sector even know. Organisational culture is “a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 1992). At this stage, there is no evidence of shared assumptions supporting the introduction of new initiatives such as the EPs to large state-owned banks. Therefore, it can be challenging to introduce this initiative without the backing of organisational culture.

Table 6.1: International comparison data on cultural dimensions

Country	Power distance index score	Individualism index score	Masculinity index score	Uncertainty avoidance index score
USA	40	91	62	46
Germany	35	67	66	65
The Netherlands	38	80	14	53
China	80	20	66	30

Source: Hofstede (2001)

6.7 Other Related Issues

There are other issues raised by the interviewees. This section provides some of these issues. Interviewees have commented on the importance of having flexibility in implementing the EPs to account for financial institutions with different sizes, strategies and operating in different markets. This is far more important for Chinese financial institutions as they are strongly influenced by the government and political agenda of the CPC.

Also, some suggested that the implementation of the EPs by Chinese financial institutions is unlikely to be immediate and will typically take several years, particularly for some state-owned financial institutions due to its complications of relationships with the governments, local authorities and other state-owned organisations. When taking a new initiative or introducing a new system or mechanism, China has always adopted the approach of experimenting on a small scale from a private sector first and then expand it to more wide scope including state-owned enterprises if it is successful. Therefore, the adoption of the EPs may be also following this approach. It will take a whole for the EPs to be adopted by state-owned banks.

Another issue raised by interviewees includes: to rebuild bank reputation. One interviewee commented that "for banks, these sustainability-related strategies have been a means to restore damaged reputations after the global financial crisis and many scandals – more recent ones include, as you know, the huge loss of investors who bought Bank of China's Crude Oil Treasure product[52] because of negative oil prices in April 2020" (Interviewee 2). This Bank of China's misfortune was a big event in the recent history of the Chinese banking industry as it drew scrutiny from China's regulators and sparked a social-media outcry. The reputation of the Bank of China has been damaged significantly. Banks may use the EPs or other CSR initiatives to rebuild their reputations and develop public relations.

It is also mentioned that during the interview on the perfection of China's legal system as a condition to fully expand the adoption of the EPs and support bank sustainable development. A well-functioning and stable legal system is critical for the development of banking industries and capital markets because it provides the basis for the protection of investor and consumer rights and ensures that creditors are repaid in an orderly manner. Interviewee 5 said: "to have fully adopted the principles of the EPs, China needs to look at the reform of its legal system to ensure legally there are no conflicts between the EPs and Chinese ways of doing business. At the moment, this can be a big problem, given the increasing conflict between China and some western countries".

Moreover, the interviewees have raised an issue of "free-rider" and considered adopting the EPs for strategic purposes and "window-dressing". Because the EPs are voluntary initiatives, they lack the necessary compliance and enforcement measures to effectively promote and implement their principles and CSR values.

[52] Bank of China's Crude Oil Treasure product enabled China's domestic investors to tap West Texas Intermediate oil futures without the need to launch an off-shore account. The product did not permit leverage and required 100% margin. On 30 April the China Banking and Insurance Regulatory Commission (CBIRC) said with regard to the Crude Oil Treasure scandal that it was "paying close attention to this risk incident," and "in the first instance has requested that Bank of China resolve the matter in accordance with laws and regulations, engage in equal negotiation with customers, promptly respond to concerns, and pragmatically protect the lawful rights and interests of customers." (http://www.chinabankingnews.com/2020/05/07/bank-of-china-offers-20-compensation-plan-to-clients-burnt-by-crude-oil-futures. (Accessed on 07/06/2020).

There is a possibility that institutions may pursue voluntary initiatives for strategic reasons only (Clemens and Douglas, 2006). Because of no formal enforcement mechanisms that are available to monitor the practices and implementations of an individual adopting bank, there may be an opportunity for a bank to gain "free-rider". The free-rider problem arises when a bank is likely to gain some reputational benefits by adopting the EPs, but actually, it does not implement all (or even any) of requirements under the EPs (Scholtens & Dam, 2007; Chen et al., 2018).

Due to the inherent non-binding nature of the EPs, the EPs adopting financial institutions may not do anything to achieve required objectives and it is possible to excuse by using local regulations and government policies for not implementing the principles. Window-dressing has been cited as self-serving enhancements undertaken by banks in order to distract from truths and motivations or underlying problems (Allen & Saunders, 1992). Although adopting the EPs is a perfect way to shape a bank's good public image, it can also be used to whitewash the improper operation of the bank's management and to hide the unethical behaviours of the bank's executives.

One respondent raised the question of conflict between the EPs and China's regulatory rules in terms of project finance priority. "What would be the solution if there is a conflict between the EPs and government guidance for lending? I believe in the context of China, financial institutions have to first follow the government guidance" (Interviewee 5).

6.8 Summary

This chapter provides results of 15 interviews with a view to gaining viewpoints and experience of senior managers in Chinese banks who have knowledge and experience in dealing with banks' CSR, sustainable development, and the EPs adoption. The interview questions cover the importance and driving force of Chinese banks' CSR and sustainable development, the ways of banks engaging in CSR and promoting sustainable development, the key areas that banks play in promoting sustainable development, the benefits of adopting the EPs, and the factors influencing the adoption of the EPs. With regards to the driving forces, interviewees have identified the role of governments, the interest of the public, and bank internal interest. Key areas that banks play in promoting sustainable development in China are inclusive finance and poverty alleviation, which are considered as important activities of a bank's CSR. The interviewees have highlighted the benefits of adopting the EPs including 1) providing learning opportunities; 2) promoting CSR and long-term sustainable development; 3) raising corporate reputation and risk management profile; and 4) changing banks' corporate culture. Six broad categories of institutional factors were raised by interviewees in relation to factors influencing the adoption of the EPs, including stakeholders determining, political factor and governmental role, investment culture, the cost of meeting the EPs requirements, transparency and accountability requirements, and Chinese cultural factors.

The next chapter provides critical discussions based on the case studies and interviews and discusses the results.

Chapter 7 Critical Discussions

7.1 Introduction

The previous two chapters provide the results of case studies and interviews. Both chapters are largely descriptive, given the nature of approaches adopted for a qualitative study with regards to answering the questions of ‘how’ and ‘what’. However, a critical approach is useful to help explain the question of “why” and look at the different perspectives of “what” and alternative thinking.

It is well-acknowledged in the literature (e.g., Deegan, 2002; Dillard & Vinnari, 2018) that a critical approach to studying CSR practices recognises the significant role of social actors, external influence, the power of different stakeholders, the political connections of firms and self-interest in developing CSR initiatives, engagements, and disclosures. This critical approach stresses that CSR practices and engagement potentially emerge to advance political interests (especially to benefit the managers for promotion in the case of China), the shapes and forms of which (such as the adoption or non-adoption of the EPs) are moulded within the contexts in which banks and businesses operate (Cooper & Owen, 2007; Dieleman & Boddewyn, 2012; Whelan, 2012). This chapter uses a critical approach to discuss the research results of case studies and interviews to examine theoretical applications to the research findings.

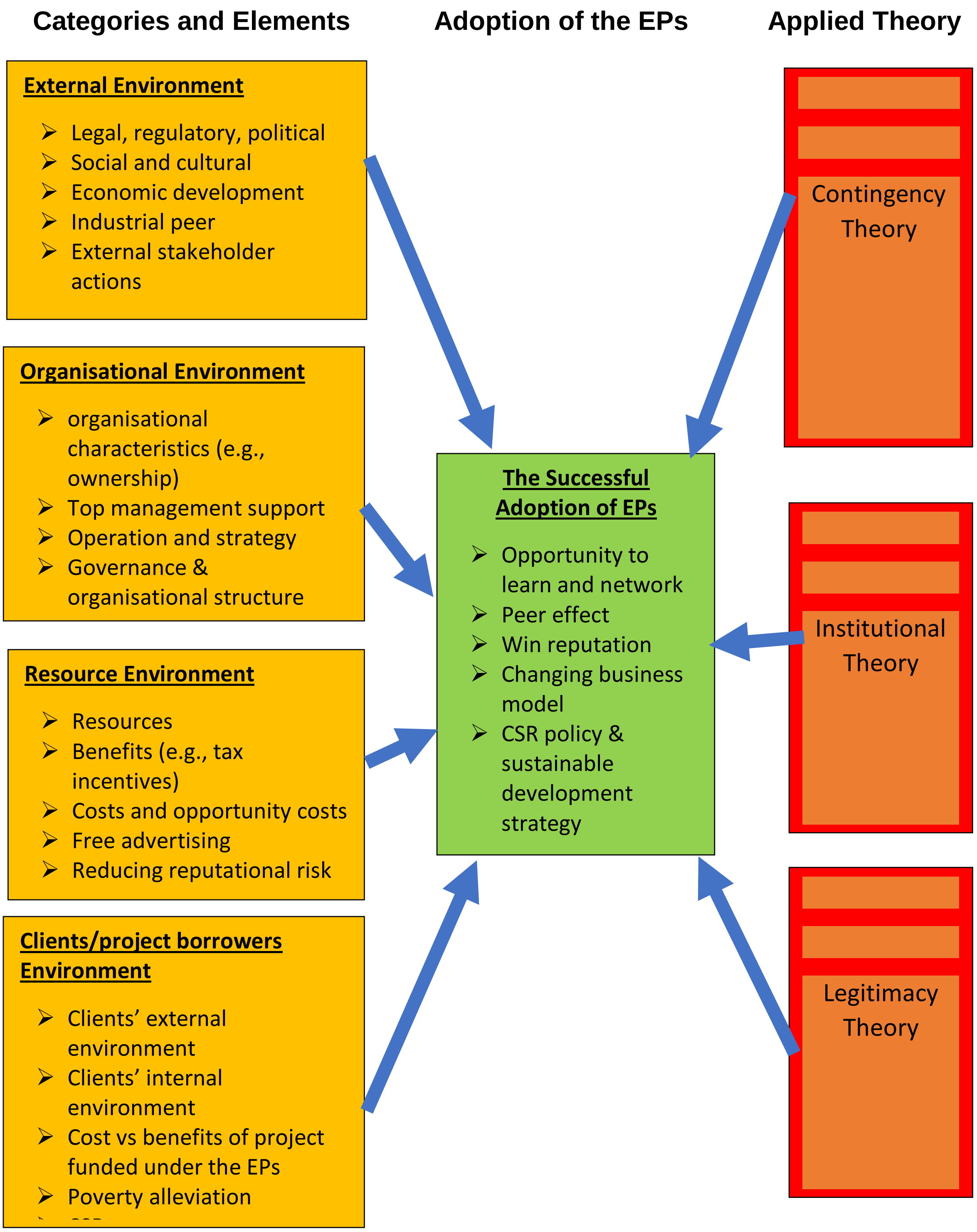
This chapter is organised as follows. The next section is concerned with institutional factors influencing the adoption of the EPs, categorising into four categories consisting of external environment, organisational environment, clients/customer environment, and resources environment. The third section looks at the external environment consisting of legal, regulatory, political factors, social and cultural factors, economic development, industrial peer, and external stakeholder actions. The fourth section considers organisational internal environment by looking at bank organisational characteristics, management capability and attitude of management, and bank experiences and business models relating to CSR. The fifth section discusses resources environment by considering the cost and benefit involved in adopting the EPs and engaging in sustainable development. The sixth section is related to clients/project borrowers' environment by discussing the influences of clients/project borrowers' environment on CSR and the adoption of the EPs of banks. Section seven attempts to use contingency, legitimacy, and institutional theories to explain the EPs adoptions of Chinese banks. Over these three theories, the institutional theory is more applicable in the context of China to interpret Chinese banks' attitude towards the EPs, CSR, and sustainable development. The final section provides a summary of this chapter. The overall conclusions and contributions of this study are given in the next Chapter.

7.2 Overall Categories of Institutional Factors Influencing the Adoptions of the EPs

The results of the previous two chapters have suggested some key institutional factors that are relevant to influence a bank's decision to adopt the EPs and engage in sustainable development. Generally, this study shows that the pressures from external sources (in particular government guidance and initiatives), the attitude of a bank's management, the ownership of the financial institutions, and resources implications are particularly relevant for the adoption of the EPs by Chinese banks.

To summarise and categorise the factors, it seems that four classes of environmental variables were delineated, including 1) a bank's external environment, which includes legal and regulatory, social, political, cultural, economic development and industry peer, and external stakeholder actions; 2) a bank's internal environment, which includes a bank's characteristics, management capability and attitude of management towards CSR and the EPs (including the motivates of senior managers and their personal interest), and bank experiences and existing business models that relate to management philosophy and style, the existing CSR policies and performance; 3) Clients/customers environment, which is described by the characteristics of the client/customer and projects to be financed; 4) resources environment, which incorporates the resources and cost implications for the adoption of EPs and engagement in sustainable development. Figure 7.1 profiles the categories and elements of institutional factors influencing the successful adoptions of the EPs, which can be illuminated with contingency theory, institutional theory and legitimacy theory. However, it should be recognised that the practices of CSR and adoption of the EPs in Chinese banks are invariably contextualised and shaped by multi-level institutional factors and players/actors embedded within the distinctive social and economic system of China.

Figure 7.1: Categories and elements of institutional factors influencing a Chinese bank's adoption of the EPs



7.3 External Environment

Overall, the engagement of CSR and adoption of the EPs are subject to the influence of the external environment of the banking industry, which includes legal and regulatory, social, political, cultural, economic development and industry characteristics, and external stakeholder actions. Jamali and Karam (2018) identify macro-level external forces in their review of the existing literature, driving CSR in the developing world. According to them, the literature explores macro-level, national and/or supranational backgrounds and experiences, the most prominent of which fall into one of five categories consisting of "geopolitical landscape of the past and present; political system and governance; financial system, economics and business operations; cultural system, societal values and customs; and local ecosystems" (Jamali & Karam, 2018, p.35). Jamali and Karam (2018) argue that in relation to CSR consequences, impacts are seen to be established "at the level of the nation and in terms of encouraging or impeding environmental, social, economic and human development, and affecting national governance dynamics" (p.35).

7.3.1 Legal, regulatory, political factors

A critical approach to analyse banks' CSR and sustainable development emphasises that CSR practices potentially emerge to advance legal and regulatory concerns and political interests. In China, power asymmetries exist between state-owned banks and private banks, between state-controlled clients/customers[53] and non-state clients/customers, between leaders from CPC and the state. Banks often grant loans to please powerful political leaders and provide lending to borrowers with or connected with powerful political leaders. The lending behaviours among different types of banks are different, including project finance. In China, large infrastructure projects, as a part of the national five-year plans are mostly funded through state-owned banks and sponsored by the government, which is always given a priority. Although social and environmental risks are part of an overall risk portfolio that a bank needs to analyse when it considers financing a project and lending a loan to

[53] State-controlled clients/customers include state-owned enterprises, governmental departments and agencies, local authorities, government-influenced NGOs, and individuals who are a member of China's ruling political party.

customers, different banks take different attitudes towards the risks. State-owned banks consider more political risk and impact that affects the completion of the government plan. Hung et al. (2017) find that politically connected banks in China have better access to lending to politically connected firms, which are high yield assets and more likely to be bailed out when in distress. The finding is consistent with the institutional environment of China's banking and political system. Senior managers of state-owned banks are more likely to be politically connected and pursue social objectives of the government due to the pressure from the government compared to the privately owned banks. Within China's state-owned bank, the government actively intervenes in business as a shareholder and economic manager to pursue social and political goals rather than maximisation of shareholder wealth.

The literature has widely presented that political ties with governmental actors are imperative for the survival and prosperity of a business organisation because the actors control access to major business opportunities and can provide crucial support through various means (e.g., subsidies, favourable regulation and policies, government contracts, protection against competitors, tax benefits and administrative supports) (e.g., Salorio, Boddewyn, & Dahan, 2005; Oliver & Holzinger, 2008). This is particularly true for the case of China, the largest emerging economy in the world where heavy investment, and economic reform and liberalisation as their primary engines of economic growth. At the beginning of economic reform and liberalisation, the financial institutions were less developed, and firms were closely tied with a variety of actors, including governments and political parties (Henisz & Zelner, 2003). It is argued by Dieleman and Boddewyn (2012) that political ties are essential in the uncertain and dangerous political environment of emerging economies and political ties create dependences on the political actors who confer benefits to the firm. Therefore, political ties must be properly managed.

The ubiquity of political-business ties has been a recurring theme in China's economic history and political *quanxi* was an important ingredient for business success. The literature also provides evidence that political ties in China tend to be positively connected with financial performance (Peng & Luo, 2000, Fan, Wong, & Zhang, 2007) and the worth of *quanxi* (i.e., connections) is contingent on both firm-specific and environmental factors (Park & Luo, 2001; Li, Poppo, & Zhou, 2008).

Because of the substantial benefits of political ties in China, it is not surprising that banks in China have largely adopted their operations and lending policies in line with the government's political interest and social objectives. In terms of engaging in CSR and particularly the adoption of the EPs, banks like to have some instructions from the authorities, instead of taking their initiatives and making their own mind, particularly in the state-owned banks. It should be recognised that political ties may harm the implementation of the EPs and CSR programmes. There is a possibility that banks may conceal their non-compliance with the EPs even they have claimed to adopt the EPs and CSR practices, uncouple regulatory requirements or bypass CSR regulations to meet other stakeholders or political expectations and demands. Government support is of necessary condition for banks to develop their CSR strategies and engage in sustainable development, although there is no strong evidence to show that government support is a condition for a bank to adopt the EPs in China. Government regulations concerning CSR, sustainable development, and social and environmental related issues are considered by the respondents in this study to be one of the main institutional factors influencing banks in developing CSR and sustainable development strategies and initiatives. From an analysis of the literature and government regulations and documents, this study has not revealed much influence of government regulations on the adoption of the EPs. Up to today, the Chinese government has not formally issued any guidance and recommendations to banks to request them to consider the adoption of the EPs.

7.3.2 Social and cultural factors

Society and culture play an important role in how banks operate and deal with social and environmental issues. As Packalén (2010) notes that "culture and sustainable development go hand in hand" (p.118), and "only those who are insightful about the human condition can understand the causes of complex problems and are in a position to find solutions which are sustainable (Packalén, 2010, p.12). Sources of culture, behavioural norms, and business networks and relationships, for example, all affect the attitude of banks in treating social and environmental issues and developing banks' CSR and sustainable development strategies and actions. Hofstede (1984) defines culture as "the collective programming of the mind distinguishing the members of one group or category of people from others" (p.25) and categorises his culture framework into five dimensions including power distance, uncertainty avoidance, individualism/collectivism, masculinity/femininity, and Confucian dynamism (i.e., long-term and short-term orientations). Power distance refers to "the extent to which the less powerful members of institutions and organization accept that power is distributed unequally" (Hofstede, 2001, p.98). According to Hofstede (1984), uncertainty avoidance explains how much individuals are threatened by ambiguity and how much individuals try to avoid ambiguities, while individualism/collectivism explains how much an individual is connected to the group. Masculinity/femininity defines the 'gender characteristics' of a society. In the view of Hofstede (2001), in a masculine culture, people are more "assertive, tough, and focused on the material success", whereas in a feminine culture people are "more modest, tender, and concerned with the quality of life" (p. 297). Chinese culture is different from the culture in Western society in many of these dimensions (Wang & Juslin, 2009). Hofstede (2001) provided a comparison of cultural dimensions with regards to power distance, individualism, masculinity and uncertainty avoidance between China and other countries, as shown in Table 6.1. China is also a very long-term orientated society.

Culture significantly influences ethical behaviour in the workplace as well as ethical attitudes, ethical orientations, company values, CSR evaluation, and sustainable development engagement (Su, 2006; Perry, 2012; Hur & Kim, 2017). As argued by Matten (2006), CSR is linked to business ethics. Yet, business ethics and perception of CSR practices and initiatives (such as the EPs) can vary depending on different cultural perspective (Agudo‐Valiente, Garéc‐Ayerbe, & Salvador‐Figueras, 2015).

The findings of Esteban, Villardon, and Sanchez (2017) confirm that national cultural dimensions exert important pressures on a company's culture, CSR and corporate sustainability. Similar findings were also confirmed by Miska, Szocs, and Schiffinger (2018) and Kucharska and Kowalczyk (2019). For example, low-power distance cultures tend to have higher levels of social and environmental responsibility than high-power distance cultures (Park, Russell, & Lee, 2007). High-power distance decreases consumer pressure on businesses with regards to CSR-related issues (Gallego-Alvarea & Ortas, 2017). With regards to the relationship between national culture and CSR, Peng, Dashdeleg, and Chih (2012) apply Hofstede's culture dimensions and use corporations' data from the Dow Jones Sustainability Index and

Compustat Global Vantage database to investigate the relationship. They find that companies' commitment to CSR could be positively predicted by individualism and uncertainty avoidance and negatively predicted by power distance and masculinity. China is a very much high-power distance society, which may explain the less development of CSR and sustainable development of Chinese firms, comparing to western society. This may explain the small number of banks adopting the EPs. The cultural dimension of long-term orientation has the greatest influence on CSR practice (Kucharska & Kowalczyk, 2019).

As argued by Zhang (2017), although some global banks may have the same CSR strategies in different countries, each bank will have its characteristics determined by cultural, historical, developmental, and local conditions. This applies to Chinese banks. Each Chinese bank has its characteristics influenced by local cultural, economic and social development condition. These three banks that have adopted the EPs are all located in China's east coastal regions where social and economic development level is relatively high and more open, comparing to other regions of China. Also, in these provinces where the three EPs adopting banks located, there are more SMEs and entrepreneurs.

Culture is an important factor that plays an essential part in banks' decision as to the adoption of the EPs. Individual bank's social and environmental policies and practices are affected by national culture. Although different definitions appeared in the literature, Hofstede's culture definition is widely accepted. Hofstede defined culture as the "collective programming of the mind which distinguishes the members of one group or category of people from another" (Hofstede, 2001). The literature has well recognised that cultural values such as social customs, norms and expectations have a strong impact on the perspectives and behaviours of individuals and collective groups. Several studies have provided theoretical frameworks that attempt to integrate cultural and institutional perspectives with the CSR and sustainability practices of firms. For instance, Caprar and Neville (2012), by integrating cultural and institutional perspectives and the sustainability practices of firms argue that national culture affects the sustainability adoption process in business in two ways: valuing sustainability (norming) and acting according to such values (conforming). Under the norming process, the national cultural context that is more compatible with sustainability principles can create more sustainability-relevant institutions (such as the EPs adopting financial institutions). This is because the norms and values regarding sustainability that are reflected in culture are formalised by local and national institutions through government policies and regulatory guidance. In response to such institutional pressures, banks may decide to resist or conform. National culture can then facilitate or impede such conforming acts of banks. National culture also determines the degree of constraint in terms of the scope of actions and decisions of senior managers and therefore, culture can affect bank policies and decisions made by individual senior managers (Crossland & Hambrick, 2007).

Because the EPs are largely based on voluntary self-regulation and used to avoid imposing legislation (Contreras et al., 2019), this does not fit with Chinese culture[54] and business practices that consider formal legislation is far more essential for business operations. Self-regulation is less acceptable in China.

7.3.3 Economic development

The level of economic development influences the extent of CSR awareness and the degree to which stakeholders demand CSR and sustainable development from banks. Previous literature has documented the positive relationship between economic development and CSR (e.g., Robertson, 2009; Campbell, 2012; Castell´o & Galang 2014; Inekwe, Hashim, & Yahya, 2020). For example, Inekwe et al. (2020) show that economic growth is significantly positively associated with CSR performance in five African countries. The case studies indicate that three adopting banks emerged from well-developed regions of China and responded to growing demands from private sectors and booming SMEs. Particularly, the Bank of Jiangsu serves these cities with the highest GDP in China and the highest number of SMEs among Chinese cities.

[54] It is possible to apply four dimensions of Hofstede's (2001) national culture (consisting of power distance, collectivism vs. individualism, femininity vs. masculinity, and uncertainty avoidance) to compare the difference between Chinese culture and western culture.

7.3.4 Industrial peer

The literature has also identified the impact of industrial peer pressure on CSR and the adoption of the EPs. Malik, Mamun, and Amin (2019) research the role of peer pressure on banks' CSR activities and long-term impacts of their CSR spending on financial performance. They find that a bank's CSR expenditure increases with that of its peer banks. Malik et al. (2019) provide evidence of the peer pressure on CSR spending, and the value of CSR in terms of short and long-term benefits. Peer pressure is recognised as an important factor influencing the uptake of the EPs in collaborative project finance (Contreras et al., 2019). Once some institutions in the market have adopted the EPs, they pressure others, particularly those with whom they collaborate often, to adopt too. Under the peer pressure proposition, the adopting financial institutions have an incentive to pressure non-adopters to adopt the EPs or as a minimum to simply become more aware of the social and environmental outcomes of the project they provide finance. The extent to which the adopter's peer pressure their financing partners of a project into adopting the EPs may very well be related to reducing implementation costs. This is because when adopters syndicate and arrange project finance loans with non-adopting financial institutions, the adopting institutions need to exert the effort in conducting the social and environmental due diligence as required by the EPs as they are committed to the regulation while non-adopting institutions are not. This inevitably provides the adopters with an incentive to pressure non-adopters by pressuring non-adopting institutions to raise their review processes to a level closer to compliance with the EPs. This herding effect may bring in more benefits to the project that financed with a syndicated loan.

Contreras et al. (2019) find that those exposed to the highest level of peer pressure by adopters are 33% more likely to adopt, compared to those that face the lowest level of peer pressure. Eisenbach et al. (2014) find that adopters of the EPs tend to syndicate loans with other adopters more often than with non-adopters, which has increased pressures on those who have not adopted the EPs to consider adopting. However, this study does not show evidence of such pressure. Maybe the time is rather too short, given the latest adopter just adopted the EPs about a year ago.

7.3.5 External stakeholder actions

Banks consider stakeholder interests when making strategic decisions, as both organisational survival and success are highly dependent on a bank's ability to generate sufficient wealth, value, and satisfaction to its stakeholders. The bank's external stakeholders have strong influences on the bank's survival and performance because of the market purchasing power of the consumers. Consumers/customers, by expressing their willingness to purchase particular products and services, exercise their purchasing power. As noted in Lepineux (2005), as an increasing number of consumers are ready to pay a premium for ecologically and socially friendly products and do not tolerate irresponsible corporate behaviour, there is a positive relationship between a business organisation's CSR actions and consumers' reactions to a firm's products exists. Therefore, business organisations are likely to take consumers' concerns into account when making CSR decisions and taking sustainable development strategies. However, in China, there is a tendency to rely on the government to exert pressures on banks for being socially responsible rather than by using their actions. Overall, it is widely accepted that an organisation's adoption of a voluntary code may also allow it to more effectively respond to the variety of demands imposed on it by multiple stakeholder groups.

External stakeholder pressures on the EPs adoptions were also recognised in the literature (e.g., Macve & Chen, 2010; Martens, van der Linden, & Wörsdörfer, 2019). Those factors that influence the determinants of adoption of the EPs include the attitude and actions of key stakeholders and their possible influence on the financial organisations. However, this study has not revealed 'quantitative' evidence of external stakeholder pressures on the adoption of the EPs, although the perceptions from interviewees suggest external stakeholder pressures are factors influencing a bank's CSR and decision to adopt the EPs.

7.4 Organisation Internal Environment

A bank's internal environmental factors influence the bank's inspirations and decision making. The organisational internal environment is always dynamic and ever-changing, to some extent influenced by the external environment. Conditions or surroundings within the boundary of an organisation are the elements of the internal environment of the organisation. Generally, the internal environment consists of those elements that exist within or inside the organisation, such as capital resources, human resources, organisation management capability, information and technological resources, organisational value, corporate culture, organisation goodwill and reputations. Broadly speaking, the internal environment includes everything within the boundaries of the organisation. Jamali and Karam (2018) in their review of CSR in developing countries as an emerging field of study present a detailed analysis of organisational environments and characteristics, including firm ownership, firm structure or governance, firm mission, identity and organizational culture, firm motives, firm operation orientation and business strategy, and firm primary stakeholders. For this study organisational characteristics refer to the characteristics of banks, the attitude of management as well as the experience of an organisation.

7.4.1 Bank’s organisational characteristics

CSR and sustainable development can have an impact on the strategy of banks faced with the constraints imposed by growing competitions, rising regulatory requirements, and pressures from social actors. Banks have to adapt their corporate strategies and business models to encounter changing environments. The concepts of CSR and sustainable development refer to a bank’s approach as a financial organisation whose ultimate goal is not that of the accumulation of profits for the benefit of its shareholders, but of finding a balance between the interests and expectations, necessarily heterogeneous and sometimes contradictory of all its stakeholders. A bank that must be socially responsible has a necessary long-term approach to its strategy and business model.

The success of the EPs adoption is a set of complex activities, involving all bank functions and often requiring between 1 and 2 years of effort and preparation, thus banks should have an effective adoption and implementation strategy to manage the adoption process, follow the guidance, ensure the adoption on schedule, and safeguard the full implementation. There are several activities required for the process, including 1) having a formal adoption and implementation plan; 2) having a realistic time frame; 3) having regular adoption and implementation working-party meetings; 4) having an effective leadership team consisting of the top person in the bank and independent directors who can monitor the process; 5) having engaged external stakeholders in the process and to be included in the working party or the adoption project management team.

Although to ensure the success of the adoption is a complex process, the data provided in this study suggests that the adoption process of the EPs itself is not huge and does not necessarily lead to the massive change of a bank's functions and operation. Although in theory, the EPs can bring about more bureaucracy and rational changes and procedures in banking lending (Chen et al., 2018; Contreras et al., 2019), the real outcome that this can result in remains underexplored. Adaptation to external pressures (in particular, the pressures from environmentalists and other stakeholder groups) towards social and environmental concerns depends on various organisational attributes and strategic responses of individual banks in China. Clearly, state-owned banks act differently from privately-owned banks. The gulf between the describing of the EPs adoption and the real practices as well as the benefits and the heterogeneous nature of adoptions of the EPs among three banks in China may be explained by institutional factors within an individual bank as shown in case studies.

Scholtens and Dam (2007) find that social, ethical, and environmental policies of banks that adopted the EPs differ significantly from those of non-adopters. However, this study does not provide evidence to support this. Probably the differing findings of this study are due to a limited number of adopters and the interviewees. In China, small and non-state banks seem more likely to consider the adoption, than large and state-owned banks.

Among various characteristics of a bank, ownership and control are rather important in the setting of China where the country is different from western economies as explained before. Although the Chinese economy is dominated by the state and state-owned sectors/enterprises, the case studies and interviews reveal the potential of private financial organisations in China to be a force for environmentally and socially sound development should be paid attention by the policy-makers. Three EPs adopting banks are all private banks and they have developed CSR policies and programmes. All these three banks have published CSR or sustainability reports for many years. Thus, the role played by the private-owned banks should not be ignored, even state-owned banks dominate the banking sector in China. As Chinese private financial institutions continue to grow in both size and power, its potential of contributing to the sustainable development of the Chinese economy expects to increase. Previous studies have studied the impact of ownership on banks' risk-taking behaviours (e.g., Barry, Lepetit & Tarazi, 2011; Iannotta, Nocera, & Sironi, 2013) and find that banks controlled by the government tend to take more risks than private banks in China (Dong et al., 2014). It is possible to follow this by arguing that private banks are more willing than state-owned banks to take an initiative that can help them reduce risks. This may explain that three private banks in China firstly adopted the EPs, probably due to their risk-taking behaviour.

7.4.2 Management capability and attitude of management

The top-level management support plays an important part in adopting the EPs. The support depends on management capability (especially management connections and guanxi) and the attitude of senior managers.

In Chinese culture, the decision is mainly made by the top-level manager who is the most powerful person in an organisation. This person in the case of a state-owned bank is mostly appointed by the government and has a good connection with the government and other local officials. Because the implementation of the EPs requires coordination among different segments of a bank and numerous departments in a local government and often beyond one local government for large project finance, as well as various levels of business contacts (including the clients and the authorities of the clients). *Guanxi* is vital to smooth the complex relations among these stakeholders and individuals with different interests and expectations. Top management support can play a very useful role in settling disputes and in providing clear instruction and direction towards project financing. Meanwhile, adopting the EPs is not a matter of just carrying out a lending project risk assessment; rather it is a matter of reengineering the whole bank and transforming the banking practices to sustainable banking and enabling the bank to become an environmentally friendly financial intermediary. It is a change of the bank's operation model and fundamental principles, which are dependent upon the management capability of the bank. Banks are not only a lending institution but also a gatekeeper of the social and environmental impact of the project it finances. Banks need to have fundamental rethinking and radical redesign of its business processes to achieve dramatic improvements in its social and environmental performance and supporting the economy's sustainable development.

Some previous studies (e.g., Scholtens & Dam, 2007) suggested how EPs adoption and implementation could be a highly complex task in which strong managerial and strategic competencies (reflecting the qualities of management capability) are required to achieve the best fit between a bank's CSR characteristics (including policies, strategies, and performance) and the EPs and to deal with the unavoidable organisational impact-induced EPs implementation. The interview results presented in the previous chapter support the 'fit' requirements. Other studies outlined different adoption patterns depending on bank size (e.g., Scholtens & Dam, 2007) and also observed that international banks adopt more quickly than local banks and banks involved more infrastructure project finance are more likely to adopt (e.g., Scholtens & Dam, 2007; Contreras et al., 2019).

Although it is recognised that top managers play a key role in deciding the adoption of the EPs. This can be considered broadly in the context of institutional entrepreneurship. Unfortunately, extant studies concerning the EPs adoption do not explore the role of institutional entrepreneurship in the decision to adopt the EPs. The concept of institutional entrepreneurship refers to the "activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones" (Maguire, Hardy, & Lawrence, 2004, p.657). The institutional entrepreneurship approach supports consideration of agency, power and interests when analysing institutional change. Prior literature (e.g., Battilana, Leca, & Boxenbaum, 2009) have recognised that institutional entrepreneurs have special characteristics (such as social position, managerial roles, political connections) that distinguish them and allow them to envision and promote alternative institutional practices and arrangements. Certain conditions (e.g., emerging new initiatives, international phenomena, uncertainty and conflicts) provide institutional entrepreneurs with some opportunities to rethink the existing institutional arrangements and to promote institutional change and adaption to solve problems in their area and within their power. In this study, the role of top managers apparently can make a change. Senior managers of these three private banks were very keen on promoting the CSR and having an opportunity to developing links with well-developed international banks. Case studies show that senior managers of all these three banks have actively taken part in seminars and conferences organised under the EPs.

7.4.3 Bank experiences and business models relating to CSR

Banks' past experiences in dealing with social and environmental issues and engaging with stakeholders are important contributors for developing CSR policies and deciding the EPs adoptions. Because the EPs adoption is the bank-wide transformation that integrates corporate governance, banking operational model, and an individual lending decision within and across all functional areas in a bank, it is a complex task that requires some experience in the past in coping with the complexity and transformation. It is imperative to get support from all functional segments of the institution. To achieve this, it is vital to conduct bank-wide training and communications about the EPs and share the experience of other banks that have adopted the EPs, particularly banks from well-developed economies. It seems that three banks that adopted the EPs in China have paid attention to the communications within their banks of the EPs through their website and bank reports. However, little information is given on the employee training with regards to the EPs and implementations.

Bearing in mind the importance of stakeholders' engagement in corporate management[55], the employee's involvement in CSR practices seems to be crucial for their successful implementation. In a bank, the minority of them is responsible for the bank's strategic approach, but the majority of employees are responsible for the everyday effort and daily routines that are dealing with customers, analysing loan applications, assessing credit risks and contributing to overall performance. Employee's perception of all CSR activities, aims and effects shapes up the bank's sustainable development and improves its performance. No double, CSR

[55] In China, some external stakeholders play an important role in influencing a bank's operation and performance. Particularly, local party committees of at various levels have huge influences on business operations. Also, the role of local communities and customers in influencing a bank's operation shouldn't be ignored, largely due to China's 'guanxi' ('relationship') culture.

performance of a bank depends on the bank employee's commitment (Testa, Boiral, & Iraldo, 2018) and experiences (including skills).

Adopting the EPs involves reengineering the existing lending processes of a bank to the best social and environmental standards in banking. It can be argued that one of the potential main reasons why the adoption fails is that banks simply underestimate the extent to which they have to change and re-engineer the existing banking operation (particularly lending) processes in order to accommodate the new requirements and principles stipulated in the EPs. There is an issue to consider the suitability of business models of a bank in the new setting. Adopting the EPs to the prevailing banking model is a challenging task this is because a bank that adopts the EPs has to change its lending processes (including risk assessment of not only credit but largely long-term consequences of social and environmental impacts) to the EPs based – processes. The change also impacts on the clients/customers/ borrowers' behaviour and corporate culture and is correspondingly constrained by clients' behaviour. Although all three EPs adopting banks in China have emphasised the importance of risk assessment in lending, there is no evidence to report on long-term consequences of their EPs projects. Assessment of long-term social and environmental consequences of a project has always been problematic (Wright, 2012; Weber, 2015).

The results of the case studies in this research show that the EPs reporting and disclosures by Chinese banks are limited. Although each of these three banks claims great importance to the EPs and the EPs being part of corporate strategies, their disclosure fails to go much beyond the general statement. Notably absent from Chinese banks' EPs reporting, for instance, are relevant details regarding project information and the results of the EPs analysis and implementation, especially the process of social and environmental risk assessment and monitoring. This makes it very difficult to establish whether the EPs adoption by three Chinese private banks is having an impact on social and environmental outcomes of the project they finance, and more generally, provides additional evidence to conclude that Chinese banks are primarily interested in the opportunities of developing a link with the international financial community and the reputational benefits of adopting EPs. There is a concern about the lack of transparency and accountability in the EPs compliance.

Previous studies such as Wright and Rwabizambuga (2006), Contreras et al. (2019) have investigated the factors that influence the adoption the EPs from the financial industry perspective. For example, Wright and Rwabizambuga (2006) argue that adopters are largely concentrated in institutional environments shaped by targeted advocacy campaigns organised by civil society groups and strong regulatory systems. This study does not have strong evidence to support this. Also, Wright and Rwabizambuga (2006) find the adopters typically operate transnational and are more likely to have a visible role in high-risk project finance deals, which increases the likelihood that environmental malpractice may be exposed by stakeholders and cause damage to corporate reputation. The findings from the case study and interviews seem not to back this as all three banks in China that have adopted the EPs are small and do not often involve in much high-risk project finance deals (except in some cases of Industrial Bank's project finance).

Banks as the financial intermediaries are vulnerable in times of economic downturns, due to the likelihood of nonperforming loans and the possibility in extreme cases of bank runs. Following the global financial crisis and particularly the recent COVID-19 pandemic, banks face growing pressures from various aspects to ensure the stability of their financial performance. To achieve this, various models can be available. For example, this can be achieved by banks, firstly internalising within their operations their social and environmental activities (e.g., supporting SMEs in the difficult periods). Also, they can act as environmental watchmen or gatekeepers by overseeing their clients' compliance with social and environmental standards, and certainly, they can decline loan applications and lending to projects that fail to meet social and environmental criteria. This was well documented by Campbell and Slack (2011). In the past decade or so, substantial progress and development have occurred in China with CSR practices being promoted in the banking industry through various government regulations and policies as shown in Table2.4 in Chapter 2.

7.5 Resources Environment

Resources environment, which incorporates the resources and cost implications for the conduct and performance of CSR, the adoption and implementation of the EPs as well as engagement in sustainable development.

Costs and benefits arise from performing CSR activities, adopting the EPs, and engaging in sustainable development. For example, the costs associated with CSR can be measured by identifying the activities associated with CSR as well as the activities that a bank was unable to undertake due to engaging in CSR activities (i.e., opportunity costs). The activities associated with CSR and sustainable development can lead to both increased outlays of cash and reductions in cash inflows. The cash benefits come from a variety of forms such as tax incentives, 'free advertising[56]', 'cost reductions in staff turnover, efficiencies, cost savings, as well additional risk management benefits (Sprinkle & Maines, 2010).

The benefits and costs of adopting the EPs have also been recognised in the literature (e.g., Esty et al. 2005; Scholtens & Dam, 2007; Martens et al., 2019). Benefits raise by an organisation adopting the EPs, recognised in the literature (e.g., Scholtens & Dam, 2007; Macve & Chen, 2010; Oghojafor & Aduloju, 2020), include a better reputation, better market access, the potential to charge a premium price for its product or enhanced possibilities to recruit and/or retain high-quality employees. For example, reducing reputational risk was widely perceived by adopting institutions (Sethi, 2002; Wright & Rwabizambuga, 2006). Of course, it is a costly task to screen and monitor the social and environmental risks in a project financed by an EPs adopting institution so as to prevent potential damage to the reputation of the institution (Wright & Rwabizambuga, 2006). In this study, the importance of bank reputation in addressing social and environmental issues in project lending has been acknowledged as revealed in banks' reports and interviews. Scholtens and Dam (2007) uncover that the social, ethical, and environmental policies of financial institutions that adopted the EPs differ significantly from those of non-adopters and those institutions that adopt the EPs intend to signal their responsible conduct.

[56] With regards to free advertising, Sprinkle and Maines (2010) explain that "companies frequently reap 'free' advertising as a result of CSR. It is quite common for organizations' good deeds to receive coverage on local and national radio and television, and be the subject of articles in newspapers, trade journals, and magazines. Almost certainly, organizations know what it costs to place an advertisement in these various media outlets. By tracking media hits and tallying the costs associated with ''equivalent'' ads, companies might reasonably estimate the benefits of such publicity" (p.450).

The study indicates that Chinese banks are using the EPs as an example of their public commitments to CSR and sustainable development even though they have reported only a small number of projects in which they have used the EPs in practice. Also, Chinese three private banks fail to provide any detailed and meaningful disclosure surrounding their implementation of the EPs or the extent to which they have been applying the EPs within their operations. Overall, the case studies reveal that Chinese banks are currently using the EPs primarily for the risk management and the important reputation benefits and they see adopting the EPs offers some opportunities for them to connect with other financial institutions from well-developed economies and to gain learning experiences toward the development of CSR and sustainability. This is consistent with the findings of Esty et al. (2005) that the adoption of the EPs expects to lead to greater learning among project financial institutions about environmental and social issues.

A financial institution's adoption strategy depends on the potential value added to the institution. With regards to the EPs, Macve and Chen (2010) argue that the EPs may be used to consider how financial institutions are determining the scope of their CSR and sustainable development, concluding the EPs adoption can add value to banks. Concerning adding value to banks, however, more evidence is needed, especially evidence from quantitative measures. The previous literature has argued that adopting a voluntary code like the EPs can add value to an organisation. For example, Wright and Rwabizambuga (2006) believe add value includes: improved corporate reputation and branding, increased competitiveness, increased access to capital markets and financing, decreased scrutiny in public consultation hearings and approval processes. They claim that each of these attributes can reduce a bank's project cost and associated expenses. This study does not intend to provide quantitative evidence to support this claim. The views from the interviews and the statements expressed in bank documents and reports seem to believe the value-added of the adoption.

The literature has shown a strong incentive for the adopters to make the EPs, voluntary framework, work and gain a widespread (e.g., Fleckinger & Glachant, 2011; Anton, Deltas, & Khanna, 2004). This is for several reasons. First, in case the EPs do not work, costly and mandatory regulation may be implemented instead. Second, because banks' environmental activities have been increasingly under scrutiny, the

EPs provide adopters with a way to align their lending practices to mitigate environmental risks and possible mandatory regulatory threats. Therefore, banks will weigh the benefits of adopting voluntary codes of conduct such as the EPs, against the costs and adopt when the benefits outweigh the costs. Besides, the voluntary nature of the EPs allows for continuous improvement and banks' adaptation to specific needs and the changing environments. On the contrary, mandatory rules would be more complex with less flexibility for continuous adaptions. The costs and inflexibility of mandatory rules may be much higher. Overall, banks perceive the EPs as a successful initiative precisely because they are voluntary (Macve & Chen, 2010). The nature of voluntary provides a bank with an opening to take account its characteristics when considering adopt or not adopt the EPs. Even among those adopting banks, there are possibilities of each having dissimilar motivations and viewing the benefits and costs differently.

7.6 Clients/project Borrowers' Environment

One of the most important stakeholder groups sensitive to a bank's CSR and sustainable development activities is its clients/project borrowers. Project finance is offered to a bank's client/project borrower. The potential social and environmental impact of the project is basically evaluated and monitored by the client. Therefore, client/project borrower external, internal and resources environments are also important to the financial institution's decision as to adopting and implementing the EPs.

Customer responses to CSR and sustainable development have been recognised (McDonald & Lai, 2011; Matute-Vallejo, Bravo, & Pina, 2011; Bravo, Montaner, & Pina, 2012; Pérez & Rodríguez del Bosque, 2015). The banking sector by serving as the financial intermediaries between lenders and borrowers play an imperative role in economic development by encouraging and supporting customers/clients' taking on CSR as well as evaluating and monitoring the social and environmental consequences of funding. Rugimbana, Quazi, and Keating (2008) argue that banks in order to satisfy the needs of their stakeholders need to maintain a well-calculated balance between the social and economic aspects of their operation and services.

Even though banks are not directly involved in social tragedies or environmental pollution, they still play a ‘catalytic role’ in sustainability by financing different projects and sectors that are exposed to these risks (Douglas et al., 2004). Therefore, the features of CSR practices in the banking sector differs from other industries. For instance, banks, as a financial intermediary, need clients, customers to act together in achieving its sustainable development and ensuring the compliance of regulatory rules on social and environmental issues in lending and project finance. Over the last decade, banks in China experienced increased contextual and regulatory pressure to commit to CSR and sustainable development and to investigate their clients’ social and environmental compliance.

Customers require that banks take a more active role in supporting their customers/clients’ CSR activities and monitoring the social and environmental performance of the loans they provide. In recent years, regulators in China have issued several guidance and policies to stimulate the role of banks in promoting their customers’ CSR and sustainable development, and incorporating environmentally responsible activities in their operations and lending. These guidelines and policies cover a wide range of areas in financial inclusion, poverty alleviation, internalising CSR and sustainable development models into banks’ operations, promoting the political agenda etc. The findings of this thesis through interviews and case studies have revealed the demand from customers on banks’ CSR; however little evidence is shown that customers/ clients demand has driven the three banks to adopt the EPs.

7.7 Applications of Theories in Explaining the EP Adoptions of Chinese Banks

7.7.1 Contingency theory

The contingency approach has been defined as being “based on the premise that there is no universally appropriate (accounting) system which applies to all organisations in all circumstances” (Otley, 1980, p.413). In consequence, contingency theory identifies several factors, categorised under the headings of the external environment, organisational environment, clients/project borrowers’ environment, and resources environment, which are defined as influencing the EP adoption/non-adoption of Chinese banks. Figure 7.1 shows these categories.

In the process of adopting the EPs and other sustainable banking policies, a bank may practice the EPs spontaneously to address the demand for social and environmental concerns from a wider range of stakeholders. Or a bank may try to legitimise it through delivering eye-catching CSR information and reporting unless external demands (such as from the regulators and government agencies) to implement these practices are tied to the bank's internal benefits or management interests. The application of contingency theory to the adoption of the EPs can reveal several factors that might influence the adoption and implementation of the EPs in project finance.

Nevertheless, it should also be recognised that given the voluntary nature of the framework, and the absence of independently verified information on actual compliance, it is to some extent difficult to assess if adopting the EPs also leads to changes in bank behaviour. As observed by Wright (2008), while the investments in resources and staff, the reform of credit risk processes, and the emergence of consulting industry around the EPs suggest that the framework has led to material changes within adopting banks and in the way project risk is managed, data on compliance across financial institutions are currently not available. As a result, it is impossible to have a full picture of the real motivation behind these three adopting banks intend to adopt.

Although case studies and interviews show the importance of CSR and potential benefits of adopting the EPs, it is not clear whether these three banks adopted the EPs really have different sustainable development policies in place, and whether they actually behave accordingly in accordance with the EPs.

7.3.2 Legitimacy theory

"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995, p. 574). Legitimacy theory has the role of explaining the behaviour of banks in adopting and implementing the EPs in order to fulfil their social and environmental objectives that enable the recognition of their extensive goal of meeting stakeholders' interests and expectations and the survival in an uncertainty environment. Prior studies have argued that from a legitimacy perspective, the EPs adopters benefit if the number of adopters reaches a critical mass (Barla, 2007). At this stage, in China, there is a long way to go to reach a critical mass, given the fact that only three banks are adopters for a sector with thousands of financial institutions. It is argued that banks gain legitimacy benefits in the form of "group recognition" (O'Sullivan & O'Dwyer, 2009). The literature (e.g., Anton et al., 2004; Barla, 2007; Wright & Rwabizambuga, 2006) recognises that legitimacy benefits through group recognition provide prestige, credibility, and differentiation from those non-adopters. Eisenbach et al. (2014) find that adopters of the EPs tend to syndicate loans with other adopters more often than with non-adopters. From the business point of view, when more banks adopt the EPs, adopters do not only gain legitimacy benefits but also have a larger pool of potential syndicate partners to collaborate with for arranging project finance loans. In this case, consequently, adopters seeking to increase their legitimacy benefits may choose to pressure their peers into adopting the EPs as well. As limited disclosures provided by three banks in China on the handling of syndicate loans in project finance, it is difficult to conclude these three private banks in China attempted to gain legitimacy benefits by adopting the EPs. The interviewees who participated in this study did not give many considerations to the legitimacy values.

7.3.3 Institutional theory

As referred in Chapter 3, the institutional theory provides a framework that can be used to explain how an organisation gradually responds to a combination of pressures from various actors within its institutional field by converging on a set of homogeneous business practices, which become the legitimate way to organise.

Key elements of the institutional theory are cultural and socio-political behaviours as they help construct rules, values, and norms, as well as provide legitimacy to organisations that comply with them (Meyer & Rowan, 1977). The existing view is that organisations attain legitimacy by actively pursuing to meet stakeholders' expectations. Achieving legitimacy in the eyes of the government, industrial regulators, external pressure groups, or society at large is vital in facilitating organisational survival. Banks are no exception.

The potential of using institutional theory to explain the operations and business initiatives (including CSR engagements) of banks has been identified in prior studies (e.g., García‐Sánchez & García‐Meca, 2017; Weber, 2017; Oliveira et al., 2019). The institutional context in China is complex and multidimensional, as evidenced by the interconnection between various social, political, environmental, and economic objectives. Because the interconnection is also moving in line with the changing environments, it is rather difficult to set up a specific initiative and target, particularly for the long run. Nevertheless, the demand for sustainable development is likely to increase in all these areas and a more integrated manner. Given the current situation of China, it is likely the demand for sustainable development is going to increase in China, both as a result of population ageing, as well as the recovery from COVID-19 lockdown and long-term economic growth, and mainly for social development, which generates greater income distribution and hence increased use of resources. The adoption of the EPs may be considered as a good gesture of a financial institution towards the sustainable development objectives. The complex institutional context, however, presents a difficult condition for a financial institution to decide precisely what the targets will be and many financial institutions adopt the “wait and see” approach towards the adoption of the EPs.

Since the reform and opening-up policy was enacted in 1978, China’s market has made tremendous progress in its economic development, which has provided a favourable development space for the development of the CSR system and sustainability initiatives. Banks and companies have increasingly increased their CSR and sustainable development disclosures. Before 2008, the information disclosure system related to the CSR concept was scattered among various legal provisions (e.g., “the Environmental Protection Law” in 1989; “the Consumer Protection Law” in 1993, and the “Public Welfare Donation Law” in 1999). Since 2003, the “Code of Corporate Governance for Listed Companies in China” issued by the CSRC has signalled that market regulators have officially introduced the concept of CSR. Subsequently, the market regulator further strengthened the legal status of CSR in 2005, specifically in the fifth revision of the newly revised Company Law, which states that business organisations should abide by social ethics and business ethics and undertake social responsibilities. In 2008, the Chinese government officially launched the construction of a mandatory disclosure system for social responsibility information for large state-owned enterprises and important listed companies, and it includes the “Guiding Opinions on the Implementation of Social Responsibilities of Central Enterprises” released by the State Council, and a series of notices from the SSE and the SZSE. As a result, the number of China’s CSR reports has surged. The case studies show that all three banks have regularly published CSR or sustainability reports, which were largely influenced by the above initiatives in line with China’s institutional transformation.

7.8 Summary

This chapter provides a critical discussion of the results. Firstly, it categorises the institutional factors influencing the adoptions of the EPs and engagement of sustainable developments of Chinese banks. The factors are categorised into the external environment, organisational internal environment, resources environment and clients’/project borrowers’ environment. Second, it applies the existing theories to explain the results. Having empirically identified the most important factors determining the adoption of the EPs, this chapter reflects on the findings from a theoretical point of view, confronting the empirical data with several strands of literature. In doing so, it is very much hoped to contribute to a more thorough theoretical understanding of the phenomenon at hand. The findings from the empirical work of interviews and case studies show that the requirements of clients were viewed of great importance for the adoption of the EPs, whereas the requirements of other stakeholders such as local community, employees were viewed less important. From the perspective of institutional theory, this implies that coercive market forces are perceived stronger and therefore are more important in influencing the adoption of the EPs by financial institutions than other determinants. The results of this study show that Chinese private banks adopt the EPs primarily for the important opportunity to develop links with well-known international banks and have chances to gain learning experiences, as well as for the important reputational benefits that the EPs may offer.

Chapter 8. Conclusions, Contributions, Implications, Limitations, and Areas for Further Research

8.1 Summary and Conclusions

The challenges posed by climate change, environmental pollution and currently Covid-19 pandemic are at the core of the debate of how the global economy and society could sustainably achieve long-term growth. The banking industry is in no different to other sectors of an economy which would be negatively impacted if these core issues were not addressed. Banks play a vital role in society and are crucial for social and economic development.

As well-recognised in the literature, banks play a central and crucial role in society as they mediate capital and assets between surplus and deficit spending households throughout the economy (Cull, Demirgüç-Kunt, & Lin, 2013). Because of this role in society, banks bear great responsibility for sustainable development (Scholtens, 2017; Galaz et al., 2018). For example, climate change is a huge concern for the financial industry (Carney, 2015). Moreover, following the global financial crisis in 2007/08 and the current worldwide coronavirus pandemic, banks face growing pressure to ensure the stability of their financial performance, to support businesses and people who have suffered from the pandemic, as well as to uphold their employees and customers' safety and wellbeing. This can be achieved by banks through various aspects, including, for example, internalising within their operations their social and environmental activities and engagements, following the governmental guide on social distancing, and taking initiatives in supporting local businesses and employees. Also, they can act as environmental watchmen through the commitment to the EPs by overseeing their customers/borrowers' compliance with environmental standards and declining to grant loans to projects that fail to meet social and environmental criteria (Campbell & Slack, 2011; Eisenbach et al., 2014; Chen et al. 2018). As a matter of fact, banks have not always properly discharged their responsibility, as seen in evidence presented in prior studies (e.g., Froud, Tischer, & Williams, 2017) and reported in media. Among behaviours include, for example, mis-selling of financial products, the collapse of small business lending, mortgage foreclosure, closures of retail branches, and breach of data protection (Paulet et al., 2015; Froud et al., 2017).

Many under-researched issues require proper and prompt attention. One of those issues is how banks strategically respond to external institutional influences and what are the factors and conditions that lead to the adoption of the EPs by Chinese banks. Chinese commercial banks may abide by the requirements for CSR practices and policies imposed by the country's central bank and regulatory authorities, but not adopt the best practices and principles (such as the EPs) recommended by international organisations and external institutional bodies. Another under-researched issue in the CSR literature, As noted in Khan, Bose, and Johns (2019), is an understanding of the political aspects of CSR in banks and the conditions under which these emerge. Banks in China experienced increased political and regulatory pressure to commit to CSR and ethical and political financing and to investigate their customers/borrowers' social and environmental compliance.

This study aims to critically identify institutional factors influencing banks' sustainable development and the adoption of the EPs in the case of China where the economy has been increasingly integrated with the global economy. This study has a number of research objectives, including: 1) To understand the role of banks in CSR and sustainable development by reviewing the existing literature. 2) To comprehend the development of the EPs and its significance in promoting sustainability. 3) To appreciate the current state of Chinese banks' sustainable development and the EPs adoption. 4) To identify institutional factors that influence the decision-making of Chinese banks with regards to the adoption of the EPs and sustainable development. 5) To present some recommendations to China's policymakers and bank managers on the EPs and sustainable development. More specifically, this study sets to study why and how Chinese commercial banks began to address CSR, sustainable development issues in their corporate strategy and how this was influenced by the institutional setting, but few banks adopted the EPs. This study attempts to find out the reasons behind the adoption of EPs by Chinese banks through case studies and interviews. In China, only five private commercial banks have adopted the EPs so far. None of the state-owned banks has adopted the EPs.

This study employs a qualitative multiple case study design and in-depth interviews, as this allows complex social and business management topics such as CSR, sustainable development and the adoption of the EPs with a focus on banks in sustainable development to be addressed and to grasp the non- or adoption of the EPs and bank sustainability. Field studies with seven banks (i.e., three EPs adopting and four non-adopting banks) employed semi-structured and thematically focused interviews, supported by desk-top studies of related documents and published reports. The study's qualitative design targets subjective perceptions and attributions of the case banks and individuals who have knowledge and experience in the subject studied. Case banks selection was based on the banks' adoption or non-adoption of the EPs in the context of China's commercial banks. The researcher deliberately selected three banks that have adopted the EPs (i.e., Industrial Bank Co. Ltd., Jiangsu Bank, and Bank of Huzhou[57]) and in addition of a mixture of four other banks (of both state-owned and private-owned) that have not adopted the EPs. The study has achieved its overall aim and intended research objectives. Table 8.1 shows the research aim, objectives, chapters that have performed the task for the objectives, and the main conclusions.

Table 8.1: Research objectives, chapters performed and main conclusions

Research Aim: *The aim of this study is to critically identify institutional factors influencing banks' sustainable development and the adoption of Equator Principles in the case of China.*			
Research objectives		**Chapters**	**Main conclusions**
1	To understand the role of banks in CSR and sustainable development by reviewing the existing literature.	Chapter 1 Chapter 2 Chapter 3	• Banks increasingly play an important role in CSR and sustainable development as it acts as an intermediate function in raising and distributing capital.
2	To comprehend the development of the EPs and its significance in promoting sustainability.	Chapter 2 Chapter 3	• The EPs as a risk management framework have been increasingly adopted by over 108 financial institutions in 38 economies since 2003 to determine, assess, and manage social and environmental risk in project finance. • The EPs have spurred the development of other responsible environmental and social management practices in the financial sector

[57] By the time of carrying the case studies and planning interviews in December 2019, only three banks adopted the EPs. Chongqing Rural Commercial Bank and Mian Yang City Commercial Bank became a signatory of the EPs in February and July 2020.

			and have supported adopting banks in developing their environmental and social risk management systems and policies.
3	To appreciate the current state of Chinese banks' sustainable development and the EPs adoption.	Chapter 2 Chapter 3 Chapter 5 Chapter 6	• Chinese banks have paid attention to CSR and sustainable development. • Five private banks have adopted the EPs, but none of the state-owned banks has adopted the EPs. • Chinese banks' sustainable development has been largely guided by the authorities and political attributes of CSR should be considered considerably in discussing CSR and sustainable development in banking. • Chinese culture has been influencing the behaviours of Chinese banks towards sustainable development.
4	To identify institutional factors that influence the decision-making of Chinese banks with regards to the adoption of the EPs and sustainable development.	Chapter 6 Chapter 7	• Institutional factors can be categorised into the external environment, organisational internal environment, resources environment and clients/project borrowers' environment. • The adoption of EPs was largely determined by institutional factors. • Chinese banks' sustainable development and adoption of the EPs are motivated by political inspirations. • The Chinese culture has influenced the decision of adopting the EPs. • The motivations of learning and developing links with financial institutions have driven senior managers of banks to adopt the EPs

5	To present some recommendations to China's policymakers and bank managers on the EP and sustainable development.	Chapter 8	• Chinese policymakers need to refresh the existing policies and regulations to adopt the latest development in banking sustainable development and the adoption of the EPs. • Chinese commercial banks should share their experiences in monitoring the social and environmental effects of project finance through the promotion of the EPs. • Managers of Chinese banks need to balance the different interests in designing bank operational models and consider the influences of external, organisational internal, resources and clients/project borrowers' environments on bank operation and lending.

It should be recognised that banks are the focal point of the commercial operations of society as banks generally enjoy good profit margins and operate in a regulated environment where there are relatively few eligible participants. In return for these privileges, it may be fair to impose additional social and environmental responsibilities on banks and demand to be leaders in promoting sustainable development. A theoretical conclusion from this study is that institutional theory, emphasising legitimacy-granting activities by business organisations, probably offers the best explanation in the context of China's banking sustainable development and the adoption of the EPs. This study highlights the capacity for institutional theory to render an in-depth understanding of the engagement of CSR and sustainable development concepts of Chinese banks associated with the adoption and implementation of the EPs by five private banks. Although the fact of requiring the adoption of the EPs could be characterised as a form of coercive power (consisting of external pressures, organisational internal factors such as governance, risk management, seeking learning opportunities, reputation building, resources etc.), recent development in institutional theory help to explore the extent to which adoption and non-adoption are shaped by the government, banks, customers, the interests of actors involved in the adoption process, and the role of senior managers of banks in promoting the sustainable development and the adoption of the EPs. However, it should be noted that other theoretical perspectives such as stakeholder theory, political economics and culture influence provide useful insights as well and each of them highlights certain aspects of the sustainable development and EPs (non-)adoption among Chinese banks. Thus, this study suggests that with a view to developing a full understanding of Chinese banks' adoption of the EPs recognising the complementarity of various theoretical perspectives is therefore essential as different environments influence the adoption and implementation.

8.2 Research Contributions

The significance of this study embeds in the importance of the Chinese economy, the rapid pace of China's development, and the resulting social and environmental problems. In recent year, substantial progress and development have occurred in China with CSR practices being widely promoted in the banking industry through CSR and sustainable development regulations. China has enjoyed remarkable economic growth for the last three decades primarily driven by an export-led development strategy, attracting foreign investment, and the development of financial institutions. However, parallel to this remarkable growth, the socio-economic conditions (such as inequality between urban and rural and the gap between the rich and the poor), climate change risks, and environmental pollution result in the nation's weakness in maintaining its sustainability. The authorities and academics have attempted to find out the solutions to maintain sustainability and have pressure on Chinese banks to integrate their sustainable development into their corporate strategy and lending policies. Based on this environment, five private commercial banks in China have joined the EP adopting institutions. Even though the adoption of the EPs does not seem to gain momentum in China, the experience of these five banks adopting the EPs expects to facilitate the diffusion of the EPs in China's banking industry and the long run promotes the Chinese economy to sustainable development.

It is important from an academic and societal point of view to study the contributions of banks in the sustainable development of an economy because the potential consequences of cross-scale systemic risks involved with bank finance (particularly large project finance) are rising. It becomes increasingly obvious that banks' human-driven processes interact with global social-ecological connectivity and exhibit cross-scale relationships (Galaz et al., 2018). Combating global warming, safeguarding ecological support systems, reducing natural resource use, diminishing poverty, balancing social tensions, supporting people and businesses to overcome the crisis of COVID-19 pandemic are key challenges for many banks today and in the near future. Many of these problems have been and will be addressed under the integrating concept of banks' sustainable development. The adoption of the EPs has been considered as a part of promoting sustainable developments in developing countries provided by the banking industry.

Considering emerging ambitions of banks to engage in sustainable development and promoting sustainability, the empirical question arises of why banks pursue adopting the EPs and change in the direction towards sustainability. The EPs are a voluntary code of conduct for the adopters to follow in evaluating and managing social and environmental risks associated with project finance and lending. Since their inception in 2003, banks from both developed and developing countries have been gradually adopting the EPs. Based on the preamble of the EPs, the EP adopters strive to ascertain that their financed projects are eco-friendly and socially responsible. Given the important role that the adopters play in international project finance, the impact of these adopters on sustainable development at a large scale should not be negligible; this is particularly evidenced from the developed economies (such as Australia, Japan, Germany, UK, USA). In China, five private banks have adopted the EPs, providing an example of promoting social and environmental concerns in project finance. Although the potential influences are hard to predict, the positive effects of EPs adoption expect to increase the awareness of social and environmental concerns involved in project finance. The EPs are a voluntary and self-regulatory CSR initiative in the financial services sector. In particular, they are considered as a credit risk management framework for identifying, preventing, addressing and mitigating adverse environmental and social risks and impacts in project finance (Martens et al., 2019). The financial institutions that adopt the EPs will use the EPs to guide them in determining, evaluating, and managing environmental and social risks in projects that can have a significant impact on the society and the environment.

The triple-bottom-line approach (Bowden, Lane, & Martin, 2001; Elkington, 1997) argues motivation and awareness of all stakeholders of an organisation towards sustainability as equally important as environmental and economic performance. In a similar vein, debates on corporate sustainability and sustainable development emphasise on the unprecedented and complete redesign of organisations and strategies that requires the ability to change and to learn. Likewise, the literature on sustainability and sustainable development, for the most part, neglects the role of learning and change processes in the implementation of new concepts and new initiatives (such as the EPs). Most approaches concentrate on instrumental aspects and the development of new CSR rating, performance connections between CSR and operation, rather than highlighting the dynamics of how such instruments and concepts can be successfully realised in banks. This study has attempted to contribute to the literature by drawing attention to the changes in banks in implementing new initiatives and concepts in promoting sustainable developments.

Banks are today facing greater pressures from a variety of stakeholders (particularly external stakeholders and international organisations) to be environmentally friendly and promote sustainable development. In response, many financial institutions based in developed economies have adopted the EPs and implementing sustainable development strategies. While in developing countries, the situation is rather different. The EPs have been known increasingly among financial institutions, but the adoption is still very low. Based on banks from Nigeria, Oghojafor and Aduloju (2020) find that there is a high level of awareness of the EPs among the banks in Nigeria, but a low level of adoption. This is probably the case in China as well as so far only five banks have adopted the EPs. Nevertheless, a small number of financial institutions in China are beginning to show their interest in joining the EP adopting financial institutions in order to learn from international financial institutions the sustainable development practices and develop their own skills and experience in evaluating and monitoring the social and environmental risk of their project finance. As shown through interviews, all 15 interviewees from sampled seven Chinese banks are aware of the EPs. In China, five private banks are examples of those financial institutions that have joined the community of the EPs adopting financial institutions. Indeed, across the world, raising concerns about environmental and social problems have led to an increasing number of banks to develop new modes of operations with a view to fulfilling stakeholders' needs. Particularly increasing evidence is witnessed from the developed economies as shown in prior studies (e.g., Contreras et al., 2019). The concept of sustainable development provides an integrated approach to address the emergent and interlinked problems of contemporary economic development such as ecological destruction, social inequality, and the neglect of future generations. All these pose questions to most modern banks and financial institutions. What is their contribution to these problems? How can banks help to solve them? What measures would a bank adopt to address these problems internally and externally? While some studies in business management attempted to find answers to these questions, most of them overlooked the role of adopting the EPs by financial institutions in contributing to sustainable development. This study has contributed to the literature by filling the gap.

This study deems to contribute to the broader discussion of the implications of banking sustainable development and the EPs adoptions for the operations, CSR, governance, and role of commercial banks. As argued by Wright (2008), an in-depth study of the EPs can provide many clues as to why private governance emerges and gives rise to institutionalised behaviour in the private sector. This is particularly motivating as in China state sector dominates the economy, supplemented by the private sector. However, none of the state-owned banks has adopted the EPs. Only five non-state-owned banks have adopted the EPs and most of them are small and local banks. The role of private banks in promoting CSR, sustainable development, and acceptance of the EPs in the setting of a state-dominated economy has not been deeply studied in the literature. This study is the first study of its kind in contributing to the existing literature (e.g., Scholtens & Dam, 2007; Eisenbach et al., 2014; Contreras et al., 2019; Oghojafor & Aduloju, 2020).

This study uses a comparative case study technique (Yin, 2009), which is appropriate for this research as it can reveal the particularities of a complex social and economic situation (Denscombe, 2014). Furthermore, the multiple-case design of this study brings additional robustness to a single-case design. The cases illustrate the potential different institutional strategies and decisions that influence the adoption of the EPs, thus ensuring variance along the various institutional dimensions (Eisenbardt, 1989). This clearly allows the identification and in-depth analysis of the research goals to understand how private-owned, comparing to state-owned commercial banks in China contribute to the sustainable development through their engagement in CSR and the adoption of the EPs. For this purpose, this study also contextualises China's institutional environment and banking sustainable development.

The literature recognises one of the under-researched issues in the CSR literature is an understanding of the political aspects of CSR in banks and the conditions under which these emerge (Khan et al., 2019). This study provides evidence from Chinese banks that political attributes of CSR should be considered considerably in discussing CSR and sustainable development in banking, particularly banking in emerging economies. The study shows that the adoption of the EPs or non-adoption of the EPs in China is, to a large extent, subject to political considerations. The state-owned banks are very much under heavy control of the government, it is not up to the bank management to decide to join or adopt an international initiative like the EPs. Instead, private-owned banks with more discretion rights can pursue the adoption without many interferences as long as they can perceive they will benefit from engaging in CSR initiatives and adopting the EPs. In China, power asymmetries exist between the depositors from the public, the state-owned enterprises, the institutional investors and banks, and between banks, political leaders, the central government, local government, and banking regulators. In many cases, banks often grant loans to please powerful political leaders, while alongside they may also develop and implement some CSR projects to satisfy the interest of other stakeholders.

This study suggests that institutional theory, which offers a plausible explanation, but certainly not necessarily complete explanations for the EPs adoption in China. Largely, the literature recognised that institutional structure of emerging countries is quite different from the developed world, in that emerging countries have greater information asymmetry, weak corporate governance, weak regulation and judicial structure, weak stakeholder pressures on firms' behaviours. The role of national context, in particular political and cultural characteristics in determining whether a Chinese bank adopts the EPs and sustainable development programme is recognised. As all five adopting banks in China are privately-owned local banks and none of these big state-owned national banks has adopted the EPs, this may suggest other factors also influence the decision of adopting the EPs, given all these banks operate within the identical social and cultural context as well as the same regulations.

There has been a plenty of research examining the association between a national culture and CSR, sustainability reporting; little evidence is known as to the culture determinant in adopting the EPs. This study provides evidence illustrating the importance of Chinese culture in influencing the decision of adopting or not-adopting the EPs. Culture is one explanation among many for variability in CSR and sustainable development performance, but it appears to be an important contextual factor acting via multiple mechanisms in influencing the adoption of EPs by Chinese banks. As shown in Caprar and Neville (2012), the principles of sustainability and sustainable development seem to be more compatible with certain cultures, or cultural values, than others. It should also be recognised that cultural values do not act independently, but in interaction with other values. This has caused the complications in analysing and isolating the factors influencing the adoption of the EPs. Further research should adopt a configuration approach (Tsui, Nifadkar, & Ou, 2007) to explain and predict the adoption of the EPs.

Overall, this study shows that the adoption of the EPs is part of Chinese banks' CSR engagements. Chinese banks see themselves as both development agents and government agents becoming part of the tools used to address some social and environmental problems. However, both institutional change and economic development are made up of continuous transitions in China, where banks' CSR and the EPs adoption constitute only a piece in a wider process of change shared by the actions of different stakeholders (e.g., the government, local enterprises) and influences by various environments. Overall, this study contributes to the CSR in banking literature by proposing the notion of integration, which allows for a better understanding of CSR determinants and sustainable development in the presence of institutional changing and transitions. Furthermore, this study extends existing evidence through case studies about sustainable development in commercial banks in China, where the major challenges differ from those in developed world. In addition, this study contributed to the EPs adoption literature by investigating the Chinese banks in adopting the EPs, scarcely studied before. This study shows that the adoption of the EPs was largely determined by the institutional factors in China and it extends prior findings in the literature on institutional determinants of adoption of the EPs.

8.3 Research Implications and Recommendations

Both the findings of this study and the main literature indicate that management attitude, organisational change, stakeholders' pressures, external and globalisation aspects are the main factors influencing the adoption of the EPs. The adoption of the EPs usually requires important organisational changes in aspects of organisational structure and responsibility, training and awareness, communication, documentation and control, reporting and disclosures, and monitoring and assurance. Indeed, the changes must be clearly understood and supported by senior managers at the board level and all employees involved. The organisations must also identify and implement education and training for all personnel whose work may be involved in granting loans, assessing clients, managing operations, and creating significant impact upon the environment where clients are based. The training should include environmental policy and global climate change, the requirements of the EPs, relevant objectives and procedures, the consequences of non-compliance etc. With regards to an effective management system, the bank needs to establish and maintain procedures for both internal and external communication and engage with external stakeholders and particularly clients/customers who are borrowers of loans and project finance. The effective implementation of the EPs is inevitably influenced by external and social aspects to a great extent, including external market pressure, customers' expectations, international influences from foreign global banks, as well as legislations and stakeholders' pressures. It is expected that growing pressures from different stakeholders will force more banks to join the adoption of the EPs. It is also expected that state-owned banks will be joining the adopting institutions and consider the EPs as part of their strategic changes as the EPs are one of the effective means to achieve the social and environmental objectives for project finance. Moreover, a bank committed to the EPs is more likely to bolster team spirit, engender loyalty and increase the bank's chance of attracting more customers.

Social, ethical, and environmental issues in banks have generate many interests among various stakeholders because of the role of financial intermediation in an economy, which differentiates banks from other types of businesses. Implementing sustainable development in banking necessitates the change of organisational governance and strategies. In light of a wide variation in corporate behaviour in accepting these changes or not (e.g., the adoption of the EPs), the question arises of when and why banks pursue processes of sustainable development strategies and change to integrate sustainability, what effects these innovations from banks have, and to what extent, and what factors promote the EPs and sustainable development. Banks trying to implement sustainable development find their corporate governance, overall strategies and conventional operational models fundamentally challenged. For example, services and products need to be reinvented, controlling systems have to integrate new sets of data and latest technologies, external and internal communication strategies require changes to embrace a wide range of stakeholders. The findings of this study provide evidence of main institutional factors influencing Chinese banks in engaging sustainable development and the adoption of the EPs, which should be of value to policy makers and bank managers in forming a wide range of policies and strategies dealing with social and environmental issues of banks and project finance.

A country's long-run economic growth relies on efficient and effective financial institutions. However, emerging economies are often distinguished by their weak institutions. Against this weakness, private financial institutions have the potential to play a key role in supporting the economic growth through their CSR activities. The findings of this study of the EPs adopters all being private banks seem to support this role of private financial institutions in promoting the new CSR initiatives. This study identifies "buttons" for policy makers trying to stimulate banks to engage with CSR and sustainable development. The findings of this study may help predict which CSR engagement and initiatives may surface as dominant and can also be used to inform the design and development of other CSR and sustainable development guidance, standards, and initiatives.

Nowadays the banking sector may have to move a step further by not only adopting the EPs and managing their own social and environmental strategies, but also offering corporate investors and individual investors with an opportunity to generate uncorrelated returns with the market, as well as meeting and making visible their CSR policies (Schinckus, 2017). For example, banks can issue social investment bonds (such as bonds to finance projects relating to *jingzhun fupin* (in Chinese) meaning targeted poverty alleviation) or green bonds, which can be offered to those investors that qualify as philanthropic investors and seek to increase the turnover ratio of their financial resources dedicated to philanthropic activities. To win at sustainable development, banks must change from the approach of regulatory compliance to a different vision of sustainability as an opportunity for innovation and value creation. Banks must integrate sustainability in strategic decision-making, finance lending process, based on the identification of emerging opportunities and threats in the social and environmental spheres.

Education and training are very important in introducing and ultimately adopting the EPs. Education and training refer to the process of providing management and employees of a bank, even a wide range of other stakeholders with the fundamentals of the EPs and potential benefits that the EPs bring to a society and the environment. With the training, employees, for example, can have a better understanding of how the EPs work and how their jobs are related to the implementation of the EPs and the potential contributions that they can make in adopting and implementing the EPs. For banks, adopting the EPs is likely to enjoy some recognition of their corporate ethical standards because they give some considerations to ecologies, transparency, and social equality issues (Wright & Rwabizambuga, 2006; Wright, 2012). Banks are more likely to be influenced by negative reputation as compared to other sectors and are more vulnerable to negative reactions from stakeholders (Thompson & Cowton, 2004). Therefore, it is critically important for banks to manage their reputation with a view to differentiating themselves from their peers and attract stakeholders' attention. The adoption of the EPs seems to be "a tactical admittance" of responsibility for negative outcomes of loan facilities by many banks (Oghojafor & Aduloju, 2020).

As argued by Wright (2008), the emergence of the EPs reflects a broader trend in global governance for the banking industry towards the greater inclusion and influence of private actors in transnational rule-making. It is important to recognise the role of private actors (including private-owned banks within the banking system in China, the external non-governmental stakeholders, and individual managers within a financial institution) in driving the acceptance and spread of the EPs among banks in China. Although China has held the state-ownership as the core of the economy, private sectors can also play an important part in bringing in new types of business practices, governance, and innovative notion.

Given the growth of project finance over the past two decades in China and the likely escalation of project finance in the post Covid-19 era, it is therefore necessary to consider the wide range of investment risks that can be associated with large-scale infrastructure projects and how banks, borrowers, governments, local communities are able to tackle these in a project finance configuration. It is known that decisions relate to the construction and operation of individual investment projects, and the formulation of the project's environmental management plan can have significant environmental and social consequences beyond the project itself. Although the type and seriousness of environmental and social problems vary between projects, assessment and monitoring of the problems in any large investment projects have been challenging. This is because in most cases ecological- and socio-economic impacts of a project are often highly interdependent. For banks, projects that generate significant adverse social and environmental impacts can have consequent effects on clients' ability to repay the borrowing, resulting in raising credit risks. Also projects that generate significant adverse social and environmental impacts can have attract negative media attention, thereby damaging the reputation of banks. Therefore, it is in the interest of banks to manage social and environmental risks involved in lending.

Scholars and policy makers are increasingly recognising the importance of the banking sector to CSR, this is because based on banks' ability to provide financial leverage, banks are in effect "gate keepers" to the economy due to the fact that they have amassed vast empires of capital and financial resources. It seems that the biggest CSR impact of private banks is not their own social and ecological footprints, but rather, their "strategic role in allocating capital to other businesses". As non-state-owned banks they have even more freedom, comparing to state-owned banks to choose projects to allocate capital.

In this study, the researcher presents empirical findings by using case studies and semi-structured interview as to the identification of major contextual drivers/barriers of the EPs adoption/non-adoption in China's banking. The study shows that global influences may sometimes be challenged by local, national meanings, in particular in different cultural contexts. For example, it should be recognised that the interpretation of social and environmental concepts (such as human rights, equality, justice, and environmental consequences) may be different in the setting of Chinese culture, in a comparison of western cultural context; this may suggest an important normative role of the local culture in the adoption of the EPs (or other initiatives based on western developed economies) and meeting international pressures. More recently, the China and US relationship has deteriorated due to the trade-war and the consequences of the coronavirus pandemic, which expects to postpone the institutional support for the adoption of the EPs in the state-owned banks and other sustainability initiatives introduced by the west.

Based on the above, it is possible to outline the main recommendations as follows: First, Chinese policymakers need to refresh the existing policies and regulations to adapt the latest development in banking sustainable development and the adoption of the EPs. Second, Chinese commercial banks should share their experiences in monitoring the social and environmental effects of project finance through the promotion of the EPs. Third, managers of Chinese banks need to balance the different interests in designing bank operational models and consider the influences of external, organisational internal, resources and clients/project borrowers' environments on bank operation and lending.

8.4 Limitations

Although the findings of this study provide some important implications for various types of policy and decision makers, the researcher also acknowledges the following limitations of this study. First, this study is based on Chinese cases study, which may not be representative of other banks and emerging economies. The weakness of a cases-based study is that it is not possible to generalise statistically from a small number of cases to the population in a broad context. In China, only five banks have adopted the EPs. This study has focused on three banks as the two banks (i.e., Chongqing Rural Commercial Bank and Mianyang City Commercial Bank) just adopted the EPs recently in this year after the completion of fieldwork.

Notwithstanding the arguments in favour of using a qualitative approach such as case study and interviews to understand how and why the CSR and sustainable development emerged in the Chinese banking sector, and the factors that influence a Chinese bank to adopt or not to adopt the EPs, the research method has limitations that may influence the quality of findings. First, a case study approach invariably raises questions about the extent to which findings can be generalised. Given that findings were drawn from three cases that have adopted the EPs, it is possible that findings about the significance of specific institutional factors influencing the adoption are only based on cases that have similar characteristics. This study has not considered other non-state-owned and private banks that have adopted and not adopted the EPs and a cross-comparison between the EPs adopting banks and non-adopting banks have not been performed. Although there are interviewees from four banks that have not adopted the EPs, among thousands of financial institutions in China as shown in Chapter 2, four banks may not be representative. As a result, the findings of institutional factors influencing non-adoption may not be generalisable to a large population of cases of those banks that have not adopted the EPs. In terms of data collection, the method and process have some limitations that may influence how the findings are interpreted and used for further research. The research was primarily based on interviews with senior managers of seven banks that have a reasonable understanding of the EPs. Managers who are not familiar with the EPs may have different views on the factors influencing the sustainable development of banking and different attitudes towards this initiative.

8.5 Areas for Further Research

There are many issues that further research can focus on with regards to banks' CSR and sustainable development, and the adoption vs. non-adoption of the EPs. The following issues are particularly relevant and urgent, requiring further studies to present evidence and theoretical explanations.

- Understand how sustainability is becoming a central component to the future success of the banks – both identifying new opportunities and mitigating future risks. Both banks and investors have a duty to drive investments and financing in the new technologies, projects, and programmes to deliver a low carbon economy. Creating a sustainability plan that is fully integrated into the business strategy of a bank is of paramount importance, but how to share these plans in a simplifying way has become a challenge. The future research may address this challenge by providing a simplifying way for banks to implement their CSR and sustainability.

- As shown in previous sections, this study has concluded that institutional theory that stresses legitimacy-granting activities by business organisations is likely to offer the best explanation as to the adoption of the EPs among China's non-state-owned banks. Meanwhile, other theoretical perspectives (e.g., stakeholder theory, political economics, and culture influence) also provide useful insights and each of them highlights certain aspects of the (non-) adoption of the EPs. This conclusion could lead further research in this field in the future to combine the different perspectives into a more encompassing theory of the EPs adoption in emerging economies like China. Such a framework could also speculate on related aspects, including different stages of adoption, different types of implementations of the EPs, and the different outcomes in terms of social and environmental impacts in short, medium and long runs. Clearly, these issues should be researched in the future, particularly by conducting empirical studies.
- Although this study provides evidence as to the culture relevance in the adoption of the EPs and culture is an explanation among many institutional factors in considering the contextual dynamism and contributing to institutional power, which influence the adoption of the EPs by Chinese banks. However, as cultural values do not act independently, but in interaction with other values within a broader institutional context, further research could adopt a configuration approach to explain and predict the adoption of the EPs, particularly for the state-owned banks. It may be useful to further detail the different sources of institutional pressures and the differentiated role culture dimensions may have in influencing Chinese private vs. state-owned banks in considering the adoption or non-adoption of the EPs and other sustainable development initiatives. For instance, further research could detail further the

cultural-political interaction from an institutional perspective of influencing the adoption or non-adoption of the EPs.

- As noted in the previous chapter, there may be a possibility for an adopting financial institution to gain free-rider benefits without any intention of actually complying with the requirements of the EPs. The future research should investigate the actuality of taking free-rider benefits by these adopting banks and if so the actual influence of free-rider on the scope of adoption.
- The EPs have been criticised by scholars for not going far enough in the direction of achieving sustainable development (e.g., Watchman, 2005), and the adopting financial institutions have been accused of using the EPs to “greenwash” their operations (e.g., Berrone et al., 2017). This study shows the EPs were mainly used by Chinese banks for learning purposes as well as for risk management to help banks build corporate reputation. Little evidence is shown the real effectiveness of achieving sustainable development. Future research needs to provide more solid evidence to advocate or contest the above criticism.
- The extant literature has also criticised the weakness of corporate governance of the EPs (e.g., Scholtens & Dam, 2007) and falls for to deepen the monitoring of the EPs implementation and the enhancing of governance of the EPs. The future research shall look at the improvement of corporate governance of the EPs, especially in terms of the accountability and transparency of project finance under the EPs. There is a need to look at the co-ordination of parties contributing to syndicated loans with regards to the monitoring and assessing of social and environmental impacts of project finance.
- Many countries declare a national emergency to handle the coronavirus outbreak and this certainly had a huge impact on financial institutions. How banks should be response to such emergency becomes an interesting research topic for future research in order to promoting the role of banks in sustainable development of an economy.
- The Covid-19 pandemic has been a serious threat not only to global health, but also to local communities, economies, and banks’ sustainable development. As financial institutions and intermediates, banks can and

should act immediately to help reduce harmful impacts caused by the pandemic, including the direct effect on public health, the severity of associated economic slowdown, especially the harshness of financing challenges for SMEs. For financial institutions, there is a need to consider short-term responses to the pandemic, ensuring responsible social and environmental approaches and management remain effectively and a long-term future economic recovery plan to consider how the financial institutions should function to ensure sustainable development in the post-Covid-19 era, which will be totally different from the existing social and economic status quo. Therefore, future research should look at these new issues relating to the Covid-19 pandemic and its impact on banks' sustainable development. It would be interesting to look at how the EPs will be incorporated with the corporate actions in dealing with the impact of coronavirus pandemic.

- Since the last financial crisis, financial innovation has been called into question as it created complicated financial assets (e.g., subprime mortgage) which in many aspects detached from economic reality (Schinckus, 2017), and investors' expectations (e.g., in the case of Bank of China's Crude Oil Treasure product). Indeed, banking creativity can yield severe consequences, but it can also drive socio-economic transformations beneficial to the society and environment. The future research needs to look at the impacts of adopting the EPs on bank transformations that bring in long-term benefits to the society and environment.

In conclusion, as the EPs may play an important role for banks in implementing the roles and responsibilities of business in society, this study hopes to be an impetus to pursue both the development of sustainable development in the banking sector and conducting empirical research on the adoption of the EPs in emerging economies particularly. No doubt, the impact of the coronavirus pandemic in 2020 and 2021 has been profound on the way on the banks operate and on both global and Chinese economy. Banks have to prioritise the health and safety of their employees and communities and protect jobs during this turbulent period of pandemic as part of their CSR. Banks need to remain fully focused on supporting their customers and the economy recover, in collaboration with the authorities, regulators and stakeholders. Greater cooperation between state-owned banks and non-state-owned banks and between Chinese banks and foreign banks is needed to gain the full benefits of the banking industry engaging in CSR and sustainable development as well as the potential long-term returns of following the EPs.

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Appendixes:

Appendix 1: Action Plan for Environmental Information Disclosure by Pilot Commercial Banks in China

Time	Goals	Qualitative Indicators	Quantitative Indicators
Phase I (2018–2019)	Pilot banks, based on their own situation, disclose the environmental impact of 2018 green credit (based on the approach of CBRC). On the basis of CBRC's measurement methods, basic data will be sorted out, and qualified data will be disclosed gradually.	1. Governance: Describe the role of board of directors and senior management of commercial banks in green finance development 2. Strategy: Describe the development strategy of commercial banks for green credit in the strategic development planning, to significantly enhance the green development of commercial banks 3. Policy system: Describe the measures of commercial banks for improving the green credit policy and promoting the green adjustment of credit structure 4. Risk management: Describe the environmental risk management process and measures of commercial bank 5. Green finance innovation 6. Practical cases 7. Research results 8. Annual results	1. Balance of green credit 2. Proportion of green credit 3. Equivalent emission–reduction standard coal 4. Emission–reduction carbon dioxide equivalent 5. Emission–reduction chemical oxygen demand 6. Emission–reduction ammonia 7. Emission–reduction sulfur dioxide 8. Emission–reduction nitrogen oxides 9. Water saving 10. Green operation indicators: including green office, vehicle energy consumption 11. Green credit training hours/man–time 12. Carbon emissions: direct greenhouse gas emissions, indirect greenhouse gas emissions, waste statistics, etc. (Note: Pilot banks may make differential disclosure, as the case may be.)

Phase II (2020)	Pilot banks select power, cement, electrolytic aluminium and other industries to analyze and evaluate environmental impacts and risks in light of their own circumstances, and make corresponding disclosures.	As mentioned above. Further refine the content of the above qualitative disclosure. Analyze and evaluate environmental impacts and risks, and tentatively carry out scenario analysis and stress testing on environmental impacts and risks for high–emission industries such as power, and disclose relevant environmental conditions according to own situation. It may include: 1. Internal and external factors that may cause environmental risks to banking operations; 2. Environmental risk analysis and assessment ideas, methods and tools; 3.A bank's ability to withstand environmental factors, and environmental risk management measures adopted by the bank.	As mentioned above. Add industry–specific information about environmental impact and risk scenario analysis and stress testing. It may include: 1. Structural adjustment targets for key emission industries such as power; 2. Stress testing methods, models and conclusions regarding the impact of environmental factors on credit risk of power and other industries. 3. Measurement of environmental benefits from credit structure adjustments in the power and other industries.
Phase III (2021)	Pilot banks are encouraged to expand the scenario analysis and stress testing on environmental impacts and risks according to their own business characteristics, and make corresponding disclosures; further improve the analytical methods; and make efforts to increase the number of financial institutions participating in the disclosure of environmental information.	As mentioned above, further improve the disclosure contents of qualitative indicators.	As mentioned above, Further expand the scope of industries for environmental impact and risk analysis and stress testing, and make corresponding disclosures.

Source: PRI (2018): *Report on the Progress of Pilot Program of UK-China Climate and Environmental Information Disclosure in 2018, pp.6-7*

Appendix 4.1 Interview Guide

The Equator Principles have been well received in western developed economies since it was launched on 4 June 2003. Currently 105 Equator Principles Financial Institutions (EPFIs) in 38 countries have officially adopted the EPs, covering the majority of international project finance debt within developed and emerging markets. In China. Three banks have adopted the EPs including the Industrial Bank Co., Ltd., Bank of Jiangsu Co. Ltd. and Bank of Huzhou Co. Ltd. Equator Principles (EPs) are a set of voluntary guidelines adopted by private financial institutions to ensure that large scale development or construction projects appropriately consider the associated potential impacts on the natural environment and the affected communities. The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects. It is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making. The EPs apply globally, to all industry sectors and to four financial products: 1) Project Finance Advisory Services, 2) Project Finance, 3) Project-Related Corporate Loans, and 4) Bridge Loans. The relevant thresholds and criteria for application is described in detail in the Scope section of the EPs.

I, as a PhD candidate at Edinburgh Napier University, am contacting a selected number of financial sector representatives from China to investigate the main institutional factors influencing the decision of adopting and non-adopting the EPs by Chinese banks and other related banking sustainable development issues. The research findings will be solely used for this PhD thesis; there will be no any commercial and government interests involved. If you are interested in this study, you are welcome to be provided a copy of the thesis once it is available.

1. The importance of CSR and sustainable development in the context of Chinese banking?
    - What is the role of government in directing CSR and sustainable development?
    - What are the public interests in CSR?

- Why banks are interested in CSR?

2. Ways of Banks Engaging in CSR and Promoting Sustainable Development
3. What are the key areas that banks play in promoting sustainable economy?
4. In your opinion, what are the benefits of adopting the EPs?
5. In your opinion, what are the main factors to influence the adoption/non-adoption of the EPs in China's banking sector?
6. Are there any other issues that you are thinking of important to the study?

Thank you very much for your time and valuable views on this research. I hope this research will help Chinese banks improve their sustainable development.