

**INSTITUTIONAL LOGICS AND MANAGEMENT  
CONTROL PRACTICES IN CSR PROMOTION IN  
CHINESE SMES: A MULTIPLE CASE STUDY OF  
PRIVATE HOSPITALS**

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**UNIVERSITI SAINS MALAYSIA**

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PRIVATE HOSPITALS**

by

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## LIST OF ABBREVIATION

ABC	Activity-based costing
BOR	Bed occupancy rate
BSC	Balanced scorecard
CMI	Casemix index
CPC	Communist Party of China
CPWs	Clinical Pathways
CSR	Corporate social responsibility
CSV	Creating Shared Value
DIP	Diagnosis-Intervention Packet
DRG	Diagnosis-Related Groups
EHRs	Electronic Health Records
FYPs	Five-Year Plans
GDP	Gross domestic product
GHE	Government health expenditure
IIS	Interoperable information system
LoC	Levers of control
MCP <sub>r</sub>	Management control practices
MCP <sub>s</sub>	Management control packages
MCS <sub>s</sub>	Management control systems
MNCs	Multinational corporations
NHC	the National Health Commission
NIS	Neo-institutional sociology
OECD	the Organisation for Economic Co-operation and Development
PHC	Primary Healthcare

PLCs	Public-listed Companies
PMSs	Performance measurement systems
PPPs	Public-private partnerships
RBRVS	Resource-Based Relative Value Scale
RW	Relative weight
SDGs	Sustainable Development Goals
SHI	Social Health Insurance
SMEs	Small and medium enterprises
SOEs	State-owned enterprises
SOPs	Standard operating procedures
TBL	Triple Bottom Line
UN	United Nations
WTO	World Trade Organisation

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**LOGIK INSTITUSI DAN AMALAN KAWALAN PENGURUSAN DALAM  
PENGALAKAN CSR DI PKS CHINA: KAJIAN KES PELBAGAI  
HOSPITAL SWASTA**

**ABSTRAK**

Tesis ini membentangkan satu kajian pelbagai kes yang melibatkan dua buah hospital psikiatri swasta di China, yang dipilih berdasarkan pendedahan mereka kepada reformasi penjagaan kesihatan nasional serta kepentingan operasi mereka dalam sektor kesihatan mental swasta yang sedang berkembang pesat namun kurang dikaji. Kedua-dua hospital ini baru-baru ini telah mengintegrasikan tanggungjawab sosial korporat (CSR) ke dalam pakej kawalan pengurusan (MCP) mereka sebagai tindak balas kepada reformasi kesihatan yang dipacu oleh negara yang menekankan nilai sosial dalam penjagaan kesihatan di bawah ideologi ‘kemakmuran bersama’. Proses di mana kerajaan mewajibkan atau menggalakkan perusahaan kecil dan sederhana (PKS) untuk mengintegrasikan CSR ke dalam operasi mereka dikenali sebagai promosi CSR. Dengan menggunakan kerangka logik institusi dan tipologi MCP oleh Malmi dan Brown (2008), kajian ini meneliti bagaimana logik negara dan logik pasaran membentuk adaptasi amalan kawalan pengurusan (MCPr) dalam MCP untuk mempromosikan CSR, serta meneroka bagaimana hospital bertindak balas terhadap kewujudan bersama logik institusi yang bersaing. Data dikumpulkan melalui temu bual separa berstruktur, analisis dokumen, dan pemerhatian lapangan. Analisis dalam kes dan rentastas kes menunjukkan bagaimana logik berganda dipamerkan

dalam MCP dan naratif yang sepadan, dengan pelbagai respons yang diketengahkan—daripada pematuhan terhadap logik negara, kepada penggabungan terpilih MCP bagi tujuan kecekapan, hinggalah kepada pemisahan, di mana naratif yang digerakkan oleh pasaran digunakan untuk mengimbangi MCP yang dipengaruhi oleh logik negara. MCPr dalam satu pakej berfungsi sebagai sistem saling bergantung, dan konfigurasi mereka boleh sama ada meningkatkan atau menjejaskan keberkesanan kawalan secara keseluruhan. Dapatan menunjukkan bahawa MCPr yang dibentuk oleh logik institusi menyokong pelaksanaan CSR dalam aktiviti operasi seperti pengurusan pihak berkepentingan utama, komunikasi nilai CSR, pengurusan risiko, penilaian aktiviti CSR, serta pengenalpastian peluang dan ancaman. Kajian ini juga meneroka bagaimana interaksi antara MCPr boleh saling melengkapi atau menggantikan, yang seterusnya mempengaruhi keberkesanan kawalan. Tesis ini menyumbang kepada literatur sistem kawalan pengurusan (MCS) dan CSR dengan menawarkan sudut pandang tentang bagaimana MCP berfungsi dalam konteks kerumitan institusi dalam sektor penjagaan kesihatan. Walaupun tahap penggabungan yang berbeza-beza membentuk teka-teki teori—iaitu bagaimana logik yang bersaing dapat diimbangi—tesis ini menunjukkan bahawa identiti perniagaan teras dua hospital serta pemahaman mereka terhadap kawalan membawa kepada ketidaksepadanan antara MCP dan naratif yang berkaitan. Ini bercanggah dengan anggapan bahawa MCP sentiasa sejajar dengan logik institusi yang mendasarinya. Oleh itu, tesis ini menyumbang kepada literatur dalam bidang perakaunan pengurusan, MCS dan CSR dengan memberikan kewajaran tentang fungsi MCP dalam persekitaran institusi yang kompleks dalam konteks penjagaan kesihatan.

**INSTITUTIONAL LOGICS AND MANAGEMENT CONTROL PRACTICES  
IN CSR PROMOTION IN CHINESE SMES: A MULTIPLE CASE STUDY OF  
PRIVATE HOSPITALS**

**ABSTRACT**

This thesis presents a multiple-case study of two private psychiatric hospitals in China, selected for their exposure to national healthcare reforms and their operational relevance within the under-researched yet rapidly growing private mental health sector in China. These hospitals recently integrated corporate social responsibility (CSR) into their management control packages (MCPs), in response to state-led healthcare reform promoting social value in healthcare under the ‘common prosperity’ ideology. The process by which the government either mandates or encourages small and medium enterprises (SMEs) to integrate CSR into their operations is referred to as CSR promotion. Drawing on institutional logics and Malmi and Brown’s MCPs typology (2008), this study examines how state and market logics shape the adaptations of MCPs within the MCPs to promote CSR, and explores how hospitals respond to the co-existence of competing institutional logics. Data were collected through semi-structured interviews, document analysis, and field observations. Within- and cross-case analyses reveal how dual logics are reflected in MCPs and corresponding narratives, highlighting varied responses—ranging from compliance with state logic, to selective coupling of MCPs for efficiency purposes, and to decoupling, where market-driven narratives buffer MCPs informed by state

logic. The MCPs within a package function as interdependent system, whose configurations can either enhance or undermine the overall effectiveness of control. The findings show that MCPs, shaped by institutional logics, support CSR implementation in operational activities such as managing salient stakeholders, communicating CSR values, managing risks, evaluating CSR activities, and identifying opportunities and threats. The study also explores how interactions among MCPs can complement or substitute for each other, influencing control effectiveness. This thesis contributes to the literature on management control systems (MCSs) and CSR by offering insights into how MCPs function under institutional complexity in the healthcare context. While the varying degrees of coupling present a theoretical puzzle—how competing logics are balanced—this thesis demonstrates that the core business identity of the two hospitals and their understanding of control lead to discrepancies between MCPs and corresponding narratives. This contradicts the assumption that MCPs are consistently aligned with the underlying institutional logic. This thesis contributes to the literature on management accounting, MCSs, and CSR by offering insight into how MCPs function under institutional complexity in the healthcare context.

## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction of the Study

Chapter 1 provides a brief overview of the study's nature and scope, which will be elaborated upon in subsequent chapters. This research focuses on the interplay between institutional logics and management control packages (MCPs) in promoting corporate social responsibility (CSR), specifically in private hospitals. As businesses transition towards CSR-oriented entities, they are confronted with the challenge of responding to and reconciling competing institutional logics. This evolution, in turn, leads to changes in management accounting practices and other aspects of control.

CSR has been promoted in SMEs operating in the private sector, bringing public sector approaches to the management of private services and transforming them into CSR-oriented entities that continuously incorporate elements of distinct, competing institutional logics (Boitier et al., 2018; Thornton et al., 2012; Upton & Warshaw, 2017; Vakkuri & Johanson, 2020). The processes integrating socially responsible principles into an organisation's strategy and operations can be understood as CSR promotion. The growing importance of CSR in business practices among SMEs has attracted considerable interest from researchers worldwide (Baah et al., 2023; Baumann-Pauly et al., 2013; Magrizos et al., 2021; Murillo & Lozano, 2006; Torugsa et al., 2012; Oduro et al., 2024). However, in the context of China, despite ongoing reforms and increasing expectations for businesses to engage in socially responsible practices, research on CSR in SMEs remains rather limited.

In light of this, the present study will examine two private hospitals in China that have recently undergone reforms and initiated CSR efforts. These CSR initiatives, influenced by healthcare reforms, emphasise the social value of hospitals. The reforms have significant implications for how these hospitals respond to changes and institutionalise CSR within their settings.

## **1.2 Background**

### **1.2.1 Institutional Logics and Their Impact on CSR**

Owing to an increasing concern about ethical, environmental and social issues, CSR has emerged as a prominent topic of discussion in the contemporary business context and the academic world. Engaging in ethical and responsible business practices is of paramount importance for the long-term sustainability and competitiveness of organisations (Cresti, 2009; Huang & Watson, 2015). CSR, often synonymous with sustainability or corporate citizenship, is built on the premise that “business and society are interwoven rather than distinct entities” (Wood, 1991, p.695). This interconnectedness shapes how organisations perceive and implement their CSR initiatives, leading to diverse approaches to addressing social and environmental challenges.

A widely recognised and frequently employed methodology for comprehending CSR is the stakeholder approach, which considers the interests and expectations of a broad group of stakeholders, such as employees, customers, suppliers, shareholders, government, and local communities (Moser& Martin, 2012; Jamali, 2008). This approach highlights the need for organisations to balance economic, social, and environmental responsibilities (Carroll, 1991, 1999; Dahlsrud, 2008; Elkington, 1994).

CSR practices can be categorised as either 'explicit' or 'implicit' (Matten & Moon, 2008). Explicit CSR involves deliberate, strategic decisions, while implicit CSR is driven by societal norms and expectations. Although organisations operating within similar institutional contexts may exhibit convergence in CSR practices, differences in resources and individual perceptions can lead to divergence (Aguinis & Glavas, 2012). This study adopts the definition of CSR as,

*“context-specific organisational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance.” (Aguinis & Glavas, 2012, p. 339).*

Research on CSR in accounting literature has explored how institutional frameworks influence business practices and CSR reporting (Jamali, 2008; Matten & Moon, 2020). Studies have shown that institutional factors shape the extent and types of CSR activities, often leading to convergence due to isomorphic pressures within industries (DiMaggio & Powell, 1983). The institutional logics perspective is particularly useful in understanding how competing logics within organisations influence CSR actions (Greenwood et al., 2011).

Various streams of research have examined CSR in the accounting literature. One of the prominent streams has studied the meanings and practices of CSR in various nations that possess distinct institutional frameworks, thereby shaping the way businesses are governed and determining the issues to which—and modes by which—it is addressed (Jamali et al., 2017; Matten & Moon, 2008, 2020; Moon & Shen, 2010; Tilt, 2016). Research on CSR disclosure and reporting provides insights through an institutional-level analysis, demonstrating how businesses conform to institutional norms and societal expectations to gain legitimacy and maintain social acceptance (Ali

et al., 2017; Chen et al., 2018; Haji et al., 2022; Shabana et al., 2017). It delves into the influence of institutional factors on the extent of and types of CSR activities and practices companies choose to implement. Institutional studies on CSR have also identified convergence in CSR activities among businesses, where an organisation tends to resemble others due to isomorphism forces within its field. The prevailing societal, industry-specific, and professional norms and expectations regarding CSR shape the behaviours and practices of organisations within a particular field or industry. This is referred to as institutional field-level logics (from now on referred to as field-level logics), which influence the dynamics of convergence in CSR.

CSR research drawing on the institutional logics perspective is theoretically useful in elucidating both the decisions made by organisations regarding CSR and the impact of institutional structures on CSR actions (Batres et al., 2010; Greenwood et al., 2011; Perez-Risi et al., 2023; Scheiber, 2015). Research on CSR informed by institutional logics is relatively recent. The majority of studies centred on the influence of competing logics in different contexts (Jamali & Carrol, 2017; Reddy & Hamann, 2018) and suggested that the coexistence of logics facilitates CSR through a set of management control practices (MCP<sub>r</sub>) implemented within the organisation (Ahmadsimab & Chowdhury, 2021; Brown et al., 2018; Frei et al., 2023). Lau et al. (2014) tested data from Chinese listed companies and concluded that these companies adopt global CSR practices. The adoption is driven by a need to obtain legitimacy, remain competitive, and align with the influence of “Generalised Assumptive Logics” surrounding CSR. These logics are typically rooted in specific national business system configurations, which are more commonly observed in Western developed economies. However, such assumptive logics can be translated and localised in

developing countries, allowing for context-specific relevance and applicability. Applying the institutional logics perspective to a specific emerging economy, where research remains limited, offers a valuable contribution to the institutional literature on CSR.

Drawing on the organisational level analysis, resource-based theorists posit that CSR can create a sustainable competitive advantage by utilising valuable, rare, inimitable, and non-substitutable resources, thereby enabling product differentiation (Barney, 1991). From the neoclassical economics perspective, maximising a company's long-term value is the most effective strategy for advancing social welfare. Consequently, CSR becomes an instrumental tool if it does not impede the primary corporate objective of maximising profits. To translate these theoretical approaches into practical application, Porter and Kramer (2006, 2011) introduced the concept of “Creating Shared Value” (CSV), which serves as a demonstration of the pragmatic and significant role of instrumental CSR. Many companies worldwide, particularly multinational enterprises (MNEs), have strategically integrated CSV into their business model. This approach prioritises specific social issues in the value chain and converts relevant social problems into profitable business opportunities, ultimately creating a win-win situation for both society and the company (Porter & Kramer, 2006, 2011).

Despite extensive research, the relationship between CSR and financial performance remains inconsistent (Wang et al., 2016). While CSR can lead to benefits such as improved reputation and reduced costs, its effectiveness varies due to contextual factors. Critics argue that CSR often becomes symbolic rather than substantive (Gond et al., 2012; Marquis & Qian, 2014), failing to balance social and

economic goals effectively (Crane et al., 2014). Understanding how CSR generates positive or negative outcomes, therefore, requires looking inside organisations—at organisational and individual levels. Process-oriented qualitative research can uncover these micro-level dynamics and explain why large-sample quantitative studies continue to yield mixed results.

Institutional contexts distinctly shape organisational behaviours, with institutional logics influencing both individual beliefs and organisational actions (Thornton et al., 2012). These logics are grounded in socially constructed norms and material practices that provide meaning to individuals' and organisations' daily activities. In the context of CSR, institutional logics directly impact organisational CSR choices and the MCPs that manage them. As defined earlier, CSR promotion in this study reflects the strategic integration of CSR into core operations. Here, the focus is on how institutional logics shape this process, not only through external pressures but also by influencing internal mechanisms such as MCPs and narratives that make sense of their use. This includes regulatory compliance as well as voluntary efforts that align organisational behaviours with broader societal expectations (Aguinis & Glavas, 2012; Carroll, 1991; Morsing & Schultz, 2006; Porter & Kramer, 2006).

There is a notable lack of empirical research in the management accounting literature on how CSR is shaped and managed within organisations (Arjalies & Mundy, 2013; Ditillo & Lisi, 2014; Gond et al., 2012; Hosoda & Suzuki, 2015; Laguir et al., 2019; Lisi, 2015). This gap exists even with a wealth of research that has addressed the inconsistent relationship between strategy and management control systems (Arjalies & Mundy, 2013; Bedford et al., 2016; Langfield-Smith, 1997; Ferreira & Simons, 1990; Tucker et al., 2009).

### **1.2.2 Management Control Systems in Promoting CSR**

The broader definition of management control systems (MCSs) consists of formal and informal control practices (Chenhall, 2003; Langfield-Smith, 1997; Ouchi, 1979). Formal controls are explicit control systems that include written rules, procedures and policies, budgets, performance measurements, and codes of ethics. These are practices used by managers to guide employees' behaviour towards achieving organisational objectives. On the other hand, informal controls are implicit and embedded in the unwritten norms and climate of an organisation, such as shared values, beliefs, and norms that shape employee attitudes and behaviours. Even though these controls are invisible, they effectively socialise employees to embrace attitudes and actions in line with the organisational culture.

MCSs play an important role in promoting CSR initiatives and are essential to CSR-related decision-making. MCSs can shape the process of strategy emergence and manage practices that sustain the implementation of deliberate strategies (Ahrens & Chapman, 2007; Henri, 2006; Mundy, 2010). There remains a need for further research to understand how CSR activities are integrated into the MCSs and internalised within organisations (Hosoda & Suzuki, 2015; Laguir et al., 2019).

Prior research has mainly used Simons' Levers of Control (LoC) framework to elucidate the implementation process between CSR and formal MCS, such as the use of enabling features of belief and interactive control systems to communicate CSR visions and identify opportunities and threats related to CSR, and the use of restricting features of boundary and diagnostic control systems to curb undesirable behaviours and align employees' behaviour with the company's CSR objectives (Feder & Weißenberger, 2021; Gond et al., 2012; Hosoda & Suzuki, 2015; Laguir et al., 2019;

Simons, 1994, 2000). However, Simons' LoC framework primarily focuses on formal cybernetic controls, which are designed to monitor and correct deviations from predetermined standards. While these controls are valuable for managing performance and ensuring compliance, they may not fully capture the intricacies involved in the process of CSR promotion.

Research into the interface between MCSs and CSR underscores the significance of informal control within organisations (Bedford et al., 2016; Ouchi, 2019). Informal MCSs can either support or circumvent formal ones (Chenhall & Moers, 2015; Hosoda & Suzuki, 2015; Laguir et al., 2019; Ouchi, 1979). Specifically, a congruency of systems can motivate managers and employees to behave in line with the company's expectations when formal MCS is designed and implemented, emphasising the enabling features consistent with informal MCS (Crutzen et al., 2017). Failing to achieve such congruence can cause tensions that increase counterproductive work behaviours (Kreutzer et al., 2016).

### **1.2.3 Malmi and Brown's Management Control Packages**

Studying a combination of formal and informal controls has gained significance, given that MCS does not operate in isolation but rather in a holistic manner (Feder & Weißenberger, 2021; George et al., 2016; Malmi & Brown, 2008; Otley, 1980). Malmi and Brown (2008) synthesised seminal research on MCS and developed a typology of the MCPs, that is, "all the devices and system managers use to ensure that the behaviours and decisions of their employees are consistent with the organisation's objectives and strategies but exclude pure decision-support system."

The MCPs typology delineates five dimensions of control (see Figure 3.1). Administrative controls lay the groundwork by establishing standard procedures and

routines. Planning, cybernetic controls, and reward and compensation systems work concurrently, forming a continuous feedback loop to measure performance and identify any deviations from planned CSR objectives. Anchoring the typology at its top are cultural controls, which instil and communicate CSR values, promoting a conducive environment.

This framework has been widely used in the management accounting literature and has contributed to our understanding of how different control systems can work together to achieve organisational objectives, including CSR objectives (Bedford et al., 2016; Bedford & Malmi, 2015; Bénet et al., 2019; Crutzen et al., 2017; Ditillo, & Lisi, 2014; Evans & Tucker, 2015; Grabner & Moers, 2013; Leotta & Ruggeri, 2017; Malmi & Brown, 2008; Rikhardsson et al., 2021; Sundin & Brown, 2017; van der Kolk, 2019). This study adopts the MCPs as it inherently assumes that MCSs might not always be designed and coordinated with intentional purposes. Instead, it grants the flexibility for the introduction of new MCPr by diverse stakeholders at different times, implying the possibility of misalignment among these practices. This perspective is particularly relevant to CSR engagement. Given that CSR is an emergent subject that is newly being integrated into organisational business models, conflicts of interest can emerge. Furthermore, the typology provides an insightful lens for examining the interactions and interdependence of different MCPr, making it an insightful framework for a comprehensive exploration of the mechanisms driving the CSR promotion process.

Going beyond the description of the framework itself, CSR initiatives emerge as organisations rationalise in response to various institutional logics (Cai & Mountford, 2022; Feldman et al., 2004). This rationalisation process offers insights into the

underlying motivations of CSR agents, as well as their values and beliefs. It further shapes how organisational actors perceive, interpret, and subsequently make sense of the use of certain MCSs in their daily operations. This rationalisation is not a one-off act but part of a recursive process where organisations continuously assign and reassign meanings to their material practices. In this “active justification process”, practices are continually justified in response to changing organisational context and external pressures (Gondo & Amis, 2013; Gran & Lukka, 2017).

The extant literature has been relatively successful in identifying the significant role of individual MCSs or mechanisms supporting CSR within organisations (Demartini & Otley, 2020; Gond et al., 2012; Hosoda & Suzuki, 2015; Laguir et al., 2019; Ouchi, 1979), while little progress has been made towards understanding the interactions of combinations of MCSs within a package in the context of CSR promotion (Langfield-Smith, 2008; Sundin & Brown, 2017).

The MCPs is frequently used in combination, consisting of multiple MCSs simultaneously, each serving specific purposes and addressing different aspects of organisational performance and behaviours. The interactions between MCPs, furthermore, can impact the functioning and effectiveness of others, generating positive and negative effects (Bedford, 2020; Bedford et al., 2016; Friis et al., 2015; Grabner & Moers, 2013; van der Kolk et al., 2020). For example, using multiple MCPs simultaneously can produce control outcomes that differ from the sum of the control outcomes of individual MCPs; certain combinations of MCPs in a package can have complementary or substitutional effects (e.g., Bedford et al., 2016; Bedford & Malmi, 2015).

Therefore, this study endeavours to enhance the existing body of literature by exploring the impact of institutional logics on the promotion and management of CSR activities through the MCPs and examining how the interrelationships among MCPs can enhance or diminish the effectiveness of control in an under-explored context: Chinese SMEs.

### **1.3 Context of Chinese SMEs**

SMEs constitute an overwhelming majority of the enterprises in China and are key to its economic development. The total number of SMEs exceeded 52 million, accounting for more than 60 per cent of the gross domestic product (GDP), 50 per cent of the nation's tax revenue and over 80 per cent of job opportunities ((Xinhua Net: China's SMEs continue recovery momentum in July 2023)). Recognising their importance, the Chinese government has implemented policies under the "common prosperity" vision and the 14th Five-Year Plan to enhance the competitiveness and sustainability of SMEs. These measures include easing financing challenges, providing vocational training, and offering tax incentives to promote innovation and regional development.

However, SMEs face significant challenges in adopting CSR practices due to limited resources, administrative burdens, and a lack of standardised management skills (EuSME Centre, 2023). Unlike larger companies, SMEs cannot simply scale down the CSR practices of state-owned enterprises (SOEs) or multinational corporations (MNCs). They must navigate complex institutional logics, including balancing government regulations with market-driven imperatives.

Previous studies have identified common CSR activities in Chinese SMEs, such as tax payment, technological innovation (Hong et al., 2020; Ji et al., 2019),

environmental sustainability (Tang & Tang, 2012), shared responsibility with the government (Heidi & Dome` nec, 2009; Zhou et al., 2012), and employee retention for social stability (Yin & Zhang, 2012; Liu & Fong, 2010). Nevertheless, these efforts are often fragmented and lack a systematic approach, leading to inconsistencies in addressing social and environmental issues.

While Chinese SMEs are pivotal to the nation's CSR agenda, their engagement with CSR remains underexplored, particularly in the context of evolving policies and institutional pressures. Further research is needed to understand how the governing field-level logics are translated into MCPs to promote CSR in SMEs, considering the unique challenges they face.

### **1.3.1 Evolution of CSR in SMEs: The Case Context**

#### **1.3.1(a) Overview of China's Health Sector**

This research chose the private specialist hospitals as the study context because the private healthcare sector is more stringently regulated compared to most SMEs, which are still in the phase of responding to government signalling of CSR in a discretionary manner but potentially face non-compliance risks in the future. Private healthcare providers experienced rapid expansion during the initial stages of China's Health Reform, due in part to the influx of social capital. By 2019, the market share of private hospitals had surpassed that of public institutions, accounting for 63.9%. They provide an important supplement to the current healthcare system (Srivastava & Zhao, 2008). Over 65% of these providers are specialised hospitals, largely due to the potential for lower investment requirements and higher return on investment (ROI). Therefore, examining private specialist hospitals can provide valuable insights into the motivations and processes driving CSR implementation within SMEs.

The Chinese healthcare sector is divided into public hospitals and private hospitals, non-profit and for-profit. Long-standing issues such as significant healthcare delivery disparities and profit-seeking behaviour have precipitated chronic medical problems in China, primarily manifested as limited accessibility and prohibitive health expenditures (commonly referred to as ‘看病难’ and ‘看病贵’). In response to widespread public discontent, China launched a national healthcare reform in 2009. This reform pledged to provide all citizens with equal access to basic healthcare of reasonable quality while also ensuring sufficient financial protection. The reform has reached significant milestones: firstly, approximately 95 per cent of the population is now covered under universal medical insurance schemes; and secondly, systemic reforms have been implemented in removing the markup on drug sales, adjusting fee schedules, and reforming governance structures (Pan et al., 2014; Yip et al., 2019).

In 2016, President Xi Jinping introduced a central strategy known as Healthy China 2030, with the objective of developing a healthier population and a more prosperous society by improving delivery efficiency and equity of healthcare services while simultaneously reducing medical expenses. This strategy is a significant part of China’s broader efforts to achieve the Sustainable Development Goals (SDGs) and the national vision of “common prosperity” as it aims to enhance the social responsibility of healthcare providers, promoting more equitable access to healthcare services, improving their service quality, and investing in rural areas to reduce disparities between urban and rural development.

In order to achieve this, a reform has been rolled out in the healthcare sector. The reform has changed the incentives for provider payment and pricing, restructured macro-governance (Figure 1.1), and built a public-hospital-centred (PHC)-based

integrated system for delivering healthcare services. Specifically, the policies mandate the Zero-Markup on prescribed drugs, experiment with alternative payment methods (such as global budget, diagnosis-related groups, and capitation) based on local institutional considerations, and issue guidelines and directives for optimising MCSs that integrate the needs of different stakeholders, including patients, government, physicians and nurses.

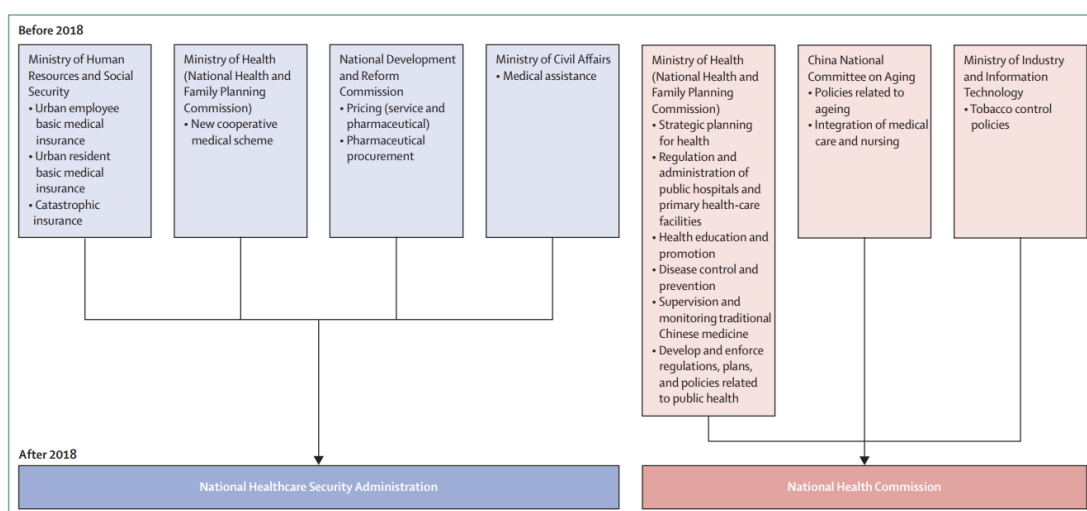


Figure 1.1 Restructured Macro-Governance Structure for Healthcare

Note. From “10 years of health-care reform in China: Progress and gaps in Universal Health Coverage” by Yip et al., 2019, *The Lancet*, 394(10204), 1192-1204.

In such a dynamic landscape, it becomes significant for healthcare providers to exercise discerning judgement in formulating material MCPs that reconcile the different field-level logics. By doing so, they could enhance their capability to maintain regulatory compliance while simultaneously improving their overall performance and long-term sustainability. For example, as part of the reform, the alteration in payment methods from fee-for-service to case-based payment, which is also known as ‘dual-track payment’ (He, 2023): the Diagnosis-Related Groups (DRG) payment and a ‘Diagnosis-Intervention Packet’ (DIP) under the global budget (National Healthcare Security Administration, 2021). Hospitals receive a

predetermined payment based on the DRG to which a patient's case is assigned; DIP payment was developed to address the implementation of DRG in China, which reimburses each group based on the historical average cost at the market level and incentivised providers to improve efficiency by reducing medical discretion (Hafsteinsdottir & Siciliani, 2010; Bäuml & Kümpel, 2021). DIP payment was developed to address the implementation of DRG payment in China because it has little dependency on the resource-intensive requirement of clinical expert judgment to classify patients (Qian et al., 2021). The relative weight (RW) that determines the payment amount for admission in each group is determined by its historical relative costs (Lai et al., 2022), and the payment varies by region. Under the global budget, providers do not know the exact payment of each group amount during the treatment process, but have incentives to respond to the payment reform by managing the process of treatment to improve the efficiency of service delivery.

Moreover, the Chinese government has emphasised social value and has stepped up efforts to regulate hospitals to ensure they meet CSR standards. Regular inspections are conducted by government regulatory bodies to certify adherence to healthcare regulations, environmental standards, and ethical labour practices. Failure to meet these regulations can result in penalties, whereas a strong commitment to CSR may make an entity eligible for government incentives or subsidies. Studies have indicated that CSR engagement in public hospitals primarily revolves around law-abiding behaviours, cost-effective medical services, and philanthropic endeavours (Chen et al., 2007; Fottler & Blair, 2002; Liu et al., 2017).

Contrary to public hospitals, social enterprises governed by government-appointed boards and subject to high levels of bureaucracy and direct oversight, private

hospitals typically focus more on profitability and specialise in certain care areas. While they must adhere to the same health and safety regulations as public hospitals, private hospitals have more autonomy in their management controls, including their approaches to implementing and managing CSR. Therefore, best practices employed in public general hospitals, such as the Sanming model, may not be applicable or effectively recognise the specific organisational structures of private hospitals.

The Sanming model considered an exemplary practice for successfully integrating MCS with CSR objectives, is currently promoted nationwide by policymakers (国家卫生健康委办公厅关于推广三明市分级诊疗和医疗联合体建设经验的通知<sup>1</sup>, 2021). This model infuses state logic into healthcare via policies and governing decisions enacted by a commission chaired by the Deputy Mayor. Changes to MCPs have been introduced, including adjustments to profit composition, diversification of performance measurements, incentive pay, and managerial autonomy (He, 2023; Yip et al., 2019; Zhong et al., 2023). However, evaluations of the nationwide implementation of the Sanming model have revealed inconsistent outcomes. While it has achieved moderate success in curtailing medical costs without reducing service volume in the short term, it has been less successful in mitigating high out-of-pocket expenses, which continue to constitute a significant share of total expenditures (Meng et al., 2019). The model's broad application has also exposed its

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<sup>1</sup> China National Health Commission, *National Health Commission Office Notice on the Promotion of Sanming Model for Building a Tiered Health-Care Delivery System and Integrated Delivery Systems*, November 22, 2021. Translation.  
<http://www.nhc.gov.cn/yzygj/s3594q/202111/7deb2791d4974ffe82328dbc15eebbfd.shtml>

limitations, particularly its inability to accommodate various contextual challenges via a one-size-fits-all approach.

Private hospitals, on the other hand, face several challenges that render the replication of best practices less feasible (Kong et al., 2013; Yu, 2021). Despite the health reform and the introduction of preferential policies, these hospitals still struggle with chronic problems, including constrained financing and talent acquisition difficulties. The latter is particularly exacerbated by the ‘Bianzhi system’, which offers lifelong tenure and superior fringe benefits to public hospital employees, thereby limiting the talent pool accessible to private hospitals. Secondly, the lack of management training for clinical managers in private hospitals leads to weak implementation processes of MCS, especially concerning cybernetic and socio-ideological controls (Hu et al., 2022).

In summary, private hospitals are expected to respond to the reform in the healthcare field to ensure regulatory compliance and secure their long-term viability. They need to either incorporate new MCP into their existing MCS or adapt their current MCPs to different uses. The organisational context can influence the extent to which they respond to institutional pressures and how they approach CSR. While existing research primarily explores best practices in public general hospitals, the ‘one-size-fits-all’ model may have limited applicability in addressing the challenges faced by private specialist hospitals, which comprise the largest portion of the private healthcare delivery sector. Therefore, a more in-depth investigation of private specialist hospitals is necessary to fully understand the promotion of CSR in China’s healthcare sector.

### **1.3.1(b) Specific Contexts of Case Hospitals**

The two private hospitals for this study were selected based on their suitability with respect to the research objectives and questions. The appropriateness of the company is based on the focus of this research on the MCPs and CSR.

The selected hospitals are the small and medium-sized psychiatry specialist hospitals at the county level in Hubei Province. Their establishment was motivated by the government's call to enhance healthcare accessibility and quality, thereby promoting the health and well-being of the Chinese populace. Enabled by the government's preferential policies, which included provisions of free land, tax reductions, and protection from local competition for a specified duration, these private hospitals have become deeply embedded within the local community.

Social Health Insurance (SHI) programmes contract both case hospitals and primarily derive their profits from reimbursements under the national medical insurance scheme. Thus, they are subject to a range of standards, regulations, and guidelines aimed at augmenting hospitals' social value through promoting high-quality care, cost containment, and public well-being. Case hospitals must respond to the regulatory environment and institutional norms within the healthcare field to maintain legitimacy. Specifically, both hospitals have implemented the DRG/DIP payment systems to improve the efficiency of healthcare delivery and enhance the accuracy of reimbursements, although this led to decreased profits for both. This payment system decouples the hospital's profitability from its cost structure, thereby transferring a substantial portion of financial risk from the system level to the hospital level (Fetter, 1991; Goldfield, 2010). Such a system can expose hospitals to financial uncertainties,

particularly when the actual treatment cost surpasses the fixed DRG reimbursement rate.

While hospitals presumably shifted their focus on cost-cutting, the total amount of costs in both hospitals continued to increase during the period of study, even though they were exposed to the risk of absorbing the additional costs. This is because a cost-cutting approach in isolation can be limiting when considering the financial implications of hospital performance. One performance metric in this context is the case mix index (CMI). The CMI is an indicator that measures the service capacity of hospitals and influences the determination of reimbursement rate (Forgione & Vermeer, 2002). When a hospital records a lower CMI value, it suggests a predominance of less complex, less resource-intensive patients, which could subsequently impact the reimbursement rates received for those cases. This dynamic is further complicated by the global budget. This budget typically derives from the cumulative amount disbursed the previous year (Song et al., 2012).

The NHC has concurrently introduced performance measurement systems (PMSs) designed to motivate hospitals to embrace more extensive social responsibilities. These metrics include service quality, efficiency, re-admissions, accessibility, patient satisfaction, and charitable contributions, all aimed at promoting public welfare. There is also an expectation for hospitals to support the development of a tiered healthcare delivery system, which aims to ensure patients seeking care at the appropriate level of the health system and overhaul the existing model where public tertiary hospitals handle most of the patient volume. These externally imposed performance metrics shape how hospitals design and apply their internal MCPs.

However, how field-level institutional logics are translated into material MCPs that contribute to CSR outcomes remains an underexplored area.

Both hospitals have MCPs in place to monitor and manage their daily operations. In response to the newly introduced objectives, these case hospitals have adjusted their MCPs from a traditional profit-maximising mission to one that incorporates CSR considerations. Given their similarities in size, core business operations, and socio-economic environment, they offer insightful comparisons regarding the nuances of internal management controls at the organisational level.

In summary, at the field level, the government has emphasised CSR in the national reform and policies for cost containment and improving the quality of healthcare services. While the reform underscores the significance of social objectives, the private sector, by nature, exhibits a pursuit of profit. At the specific organisational level, it has described how the two selected hospitals evolved from a cost-centric model, where high costs are incurred due to possibly prolonged stay, to CSR-oriented hospitals that simultaneously have both economic and social objectives. These hybrid entities are, therefore, different from public sector organisations as they operate in a unique context.

Considering the above, this study needs to explore the dynamics and challenges faced by the two hospitals, particularly in responding to the simultaneous pressures to fulfil both the private sector and public sector objectives and operate in a regulated environment. Therefore, this study asks the question: How do selected hospitals respond to such conflicting pressures? To address this question, it is essential to explore how CSR has taken place and the role of MCPs in promoting CSR during the transformation process.

## **1.4 Problem Statement**

### **1.4.1 Theoretical Perspective**

Different countries' heterogeneous socioeconomic and political realities influence the adoption of CSR; values associated with CSR often drive the engagement of specific CSR practices (Matten & Moon, 2008, 2020). While a growing body of research documents how global CSR norms manifest and are adapted in countries outside the developed world (Brown et al., 2018; Helms et al., 2012; Jamali et al., 2017), there is an imbalance in the CSR research depth and breadth, especially at the organisational level (Aguinis & Glavas, 2012; Jamali et al., 2017; Jamali & Karam, 2018). Discussions at the organisational level, furthermore, have often centred on social enterprises and not-for-profit organisations (Battilana & Lee, 2014; Frei et al., 2023; Jay, 2013; Mair et al., 2015; Ometto et al., 2018). In these contexts, market logic is typically less pronounced and is incorporated into structures primarily guided by a logic of social responsibility (Alter, 2007; Pache & Santos, 2013; Stevens et al., 2015). The discussion of organisational hybridity has emphasised social enterprises and not-for-profit organisations (Battilana & Lee, 2014; Jay, 2013; Mair et al., 2015; Ometto et al., 2018;), where less prominent commercial elements are integrated into structures dominated by a social responsibility logic (Alter, 2007; Pache & Santos, 2013; Stevens et al., 2015). We know much less about the counterpart where for-profit companies integrate responsibility elements into dominant commercial structures, even though hybridity in corporations that engage in CSR has been presented as an important area for future research.

Institutional theory is a widely accepted theoretical lens to understand how organisational behaviours are shaped by the institutional environment

(Athanasopoulou & Selsky, 2015; Bansal & Kumar, 2021; Barin Cruz et al., 2015; Broadbent & Laughlin, 2005; Chantziaras et al., 2020; Luo et al., 2021; Matten & Moon, 2008; 2020; Miska et al., 2016; Shabana et al., 2017). Different logics in a particular institutional environment take the form of socially accepted norms and material practices (Friedland, 1991). Organisations operating within this context interpret these logics and subsequently translate them into their MCPs. Conflicts between coexisting logics are common, requiring an understanding of the sensemaking processes that organisations respond to and reconcile these different logics (Freie et al., 2023; Greenwood et al., 2011; Oliver, 1991). The translation process is an area that requires further insights in empirical research.

In the context of promoting CSR in the private sector, existing MCPs must adapt to manage the process. Most previous research on CSR has predominantly relied on the LoC framework to explore the use of formal control systems (Ferreira & Otley, 2009; Gond et al., 2012; Hosoda & Suzuki, 2015; Laguir et al., 2019; Simons, 1994, 2000). This body of work also underscores the significance of informal systems in cultivating a robust CSR culture (Hosoda & Suzuki, 2015; Laguir et al., 2019; Norris & O'Dwyer, 2004). It has been recognised in the recent literature that MCSs do not operate in isolation but form a package of connected controls (Arjaliès & Mundy, 2013; Berg & Madsen, 2020; George et al., 2016; Otley, 1980; Ghosh et al., 2019; Wijethilake, 2017).

Many scholars have stressed the importance of analysing the impact of MCPs, as MCPs, such as PMSs and rules and procedures, interact and affect each other's outcomes (Bedford et al., 2016; Bedford & Malmi, 2015; Chenhall & Moers, 2015; Feder & Weißenberger, 2021; Friis et al., 2015; Langfield-Smith, 2008; Malmi &

Brown, 2008; Simons, 2000; Wouters & Roijmans, 2011; Otley, 1980). However, when analysed as part of the wider set of MCPs that a company has in place, MCPr observed to have incremental benefits may not necessarily be relevant for achieving effective CSR control outcomes (Bedford et al., 2016). This is because these practices can interact and produce control outcomes that differ from the sum of their outcomes. While prior literature has examined the aggregate effect of interactions among MC mechanisms (Kruis et al., 2016; Mundy, 2010; Simons, 2000; Tessier & Otley, 2012; Widener, 2007), little attention has been paid to how interdependencies between MCPr can influence control effectiveness (Bedford et al., 2016; Beford & Malmi, 2015; Friis et al., 2015; Grabner & Moers, 2013; Kolk et al., 2020).

#### **1.4.2 Practical Perspective**

The CSR practices of SMEs, including small and medium-sized private hospitals, have been criticised for being fragmented and lacking in value addition. Substantive CSR efforts may remain peripheral and decoupled from core business activities, resulting in sporadic and inconsistent efforts that do not effectively address current CSR issues in society (Drempetic et al., 2020; Jenkins, 2006; Magrizos et al., 2021; Takacs et al., 2022).

China has taken a top-down approach to CSR, whereby national development strategies and the governing philosophy of the central government have significantly influenced the laws and regulations pertaining to sustainable development (Matten & Moon, 2010; Mu et al., 2014). It has been noticeable that Chinese companies tend to lean heavily on government guidelines for their CSR initiatives, rather than adhering to international standards and guidelines (Sial et al., 2018). This unique institutional environment is pivotal in shaping CSR endeavours in organisations, aligning them

with the state logic, such as the national vision of "Common Prosperity." Several studies have demonstrated the effectiveness of government policies in promoting CSR, especially within SOEs that are politically dependent on the government and subject to strict governmental monitoring. However, there is limited research exploring how SMEs, which remain largely discretionary, interpret state logic and incorporate it into their CSR initiatives.

As previously noted, SMEs face inherent and chronic challenges. They often struggle with securing finance, recruiting and retaining talent, upgrading technology, and adapting to a continuously evolving regulatory environment. These obstacles can be particularly daunting for SMEs, which lack the extensive resources that larger companies can deploy. Therefore, SMEs cannot merely replicate the CSR activities of SOEs. Nor can they directly scale down the internal management processes for CSR activities typical of larger firms. Instead, SMEs must balance government policies and business considerations to make informed decisions on promoting CSR.

The influence of state logic is particularly evident in heavily regulated sectors, such as the private healthcare sector, which is held accountable for its societal impact. Previously, private hospitals operated with a primary focus on profit. These profits were largely derived from national medical insurance reimbursements based on a fee-for-service model. Such a model incentivised healthcare providers to focus more on treating illnesses, often through prescribing expensive drugs and tests. Consequently, this approach made the healthcare delivery system inefficient and costly, falling short of effectively addressing the broader health needs of the population.

Years of reform in the healthcare sector have increased turbulence, with these changes introducing new reimbursement methods and imposing stricter monitoring of