

IVEY BUSINESS JOURNAL

Winds of Change: Corporate Social Responsibility in China

By Joseph Sarkis, Na Ni and Qinghua Zhu

Reprint# 9B11TA09

RICHARD IVEY SCHOOL OF BUSINESS FOUNDATION January/February 2011
COPYRIGHT © 2011

To order copies or request permission to reproduce materials, please contact:

Ivey Publishing, Richard Ivey School of Business Foundation
c/o Richard Ivey School of Business
The University of Western Ontario
London, Ontario N6A 3K7
Tel: (519) 661-3208
Fax: (519) 661-3882
Email: cases@ivey.uwo.ca

Richard Ivey School of Business Foundation prohibits any form of reproduction, storage or transmittal of this material without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization

Ivey Business Journal

is published by Richard Ivey School of Business Foundation a division of
The Richard Ivey School of Business.

For subscription information, please contact:

Ivey Business Journal
P.O. Box 10, Station Q
Toronto, Ontario M4T 2L7

Email: www.iveybusinessjournal.com

Phone: (416) 923-9945

Winds of change: Corporate Social Responsibility in China

By Joseph Sarkis, Na Ni and Qinghua Zhu.

Joseph Sarkis is Professor of Management in the Graduate School of Management, Clark University, Worcester, Massachusetts. His most recent book is an edited volume, *Facilitating Sustainable Innovation through Collaboration: A Multistakeholder Perspective* (Springer).

Na Ni is an Assistant Professor in the Department of Management and Marketing, Hong Kong Polytechnic University, Kowloon, Hong Kong. Her current research focuses on corporate social responsibility practices in various institutional contexts.

Qinghua Zhu is Professor of Management in the School of Business Management, Dalian University of Technology, Dalian, Liaoning province, China. Her main research interests are corporate environmental management and social responsibility.

Over the past few years, news reports have highlighted various incidents that demonstrate poor corporate social responsibility (CSR) practices in China. Worker suicides, faulty consumer products, toxic emissions in the countryside, overworked and underpaid employees have all been major topics in the popular press. The awarding of the Nobel Peace Prize to Chinese dissident Liu Xiaobo has also raised awareness of social issues and the fallout facing China and its organizations. Given this negative publicity and the social notion of “saving face,” China's government and industrial organizations have attempted to make sea changes in corporate practices. Although there is a perception that these changes are being adopted at a snail's pace, the fact is that a move to assume greater CSR is actively under way.

In a certain way, China's CSR practices are unique. While we would not downplay the seriousness of poor social and environmental practices in any region of the world, the level of severity and benefits of various CSR practices tends to vary, and may be culturally, politically, and geographically dependent. Even though China has similar CSR dimensions as other developed countries, unique dimensions may also exist. For example, a particularly Chinese dimension in which companies ease national employment pressures by providing increased job opportunities that would not otherwise exist may not be viewed as a dimension of CSR by more developed countries (Xu and Yang, 2010).

Such issues, and various cultural sensitivities and political biases, are barriers that make an investigation into China CSR difficult, but not impossible.

In this article we identify how various institutional pressures (government, industry, communities or media, NGOs, and unions) are causing Chinese industry to seriously reevaluate their CSR practices. Some of these responses are based on our own personal research, others through secondary sources. Overall, we believe that institutional-level winds of change are occurring, generated by governmental, international, inter- and intra-organizational pressures.

Governmental institutional forces

China's government is the most significant actor influencing industrial practices. Previous to 1978, almost all companies in China were state-owned, and only when many were privatized, in the 1980's and 90's, did private industry start making a significant contribution to China's GDP. After its entry into the World Trade Organization (WTO) in the late 1990's, private ownership was extended to foreign direct investment. Each of these developments brought forth varying CSR concerns for organizations. Yet, it was not until certain highly publicized events of the last few years that the government began to seriously consider the implications of CSR for industry.

In the 2005 National People's Congress, the government's Harmonious Society policy changed China's focus from economic growth to one of societal balance and harmony. Pressure for an intensified focus on CSR was as an outcome of this initiative. Exemplary legislation of this policy is Article 5 of the 2006 Chinese Company Law, which requires companies to "undertake social responsibility" in the course of conducting business (Lin, 2010).

The national government adopted numerous mandatory and voluntary environmental regulatory policy strategies and instruments. But even with all these regulations 'on the books', enforcement has been relatively lax. Encouraging enforcement requires effort by regional governments. Specific central government performance incentives, combined with targets set by regional level governmental agencies, can greatly influence enforcement. Realizing the difficulties of mandatory enforcement and conflicting incentives, the Chinese government has adopted voluntary regulatory policies. One such policy instrument is the Circular Economy (CE) policy.

The Chinese central government initiated the CE policy as an official development strategy in 2002 (Yuan et al., 2006). Its aims are to relieve environmental degradation and resource scarcity issues due to poor industrial practices. The CE promotion law was officially enacted as legislation and has been in effect since January, 2009. CE is meant to promote continuous economic development without generating significant environmental and resource challenges. This approach enhances opportunities for organizations to practice CSR so that social (environmental) and economic dimensions will benefit. The preferred method of implementing most of the CSR in China is based on this win-win concept.

International regulatory policy and governments also play a role in Chinese organizations' adoption of environmentally oriented CSR practices. In 2003, the European Union (EU) adopted two legislative directives, WEEE (waste electric and electronic equipment) and RoHS (reduction of hazardous substances). Any organization with commerce in, or export to, Europe is required to meet the regulatory stipulations set forth by these directives. Supply chain activities require organizations to comply with them as well. Compliance with these regulations helps diffuse environmentally sound practices that are adopted by Chinese suppliers for their products, whether or not the products they are shipping are to be consumed in China or in non-EU countries.

Industrial institutional forces

Private firms have accelerated the diffusion process of CSR practices in China. In 2005, these firms accounted for 65 percent of China's GDP (China Statistics, 2005). Despite some advantages, private firms in China still face many disadvantages on a variety of aspects (e.g., tax, financing, investment policy, employment, etc.), mostly as a result of government policies. Capitalist-oriented private firm owners have been traditionally viewed as opponents of Communist Chinese society (Hong, 2004).

In order to enhance their corporate reputations and brand value, these private owners actively seek additional social capital from government, communities, and other stakeholders. Part of the process of building social capital in China includes high-profile CSR activities. Private firms are actively involved in relationships with external communities, government and non-governmental organizational stakeholders. One example is the well-known China Guangcai (Bright Light) Program aimed at eliminating poverty in mid-western and other poor, isolated regions within China. It was initiated by ten private entrepreneurs in 1994; the major participants are private owners in China and overseas (Guo and Yu, 2006). As of June 2006, 19,982 private entrepreneurs participated in related investment or donation activities in over 15,429 projects covering diverse areas such as education and training, employment, health care, and social assistance (Guangcai Program, 2010). A survey of 8,000 members by the All-China Federation of Industry and Commerce (ACFIC) reported that the cash and in-kind donations by private firms within one month after the Sichuan earthquake in 2008 totaled over 6.24 billion RMB. The top five firms donated over 100 million RMB (ACFIC, 2008).

Incorporation of CSR-sponsored activities by private companies in China also occurs through the building of political connections, namely by having former government officials sit on the advisory board or by becoming members of the political party (e.g., members of the Chinese Communist party or the People's Congress).

Supply chains are another industrial force that can encourage Chinese organizations to adopt CSR practices. Transnational corporations are typically under pressure from their stakeholders to adopt specific CSR principles and policies. As a result, incorporating CSR into supplier sourcing decisions are practices that would diffuse CSR policies throughout Chinese organizations. For example, major automotive manufacturers for years have required that Chinese suppliers have ISO 14001 environmental management system standards (Zhu et al., 2008). A new ISO business standard, ISO 26000, introduced in 2010, provides guidelines for social responsibility. It can be expected that supply-chain partner requirements for achieving this standard will closely follow the same diffusion path as standards for ISO 14001 and ISO 9000. These standards do not guarantee better CSR performance, but at least they provide assurance that the systems will be in place to help organizations improve their CSR management. It should also be noted that certain practices used by companies in a supply chain have had an impact on other social practices, such as the elimination of child labor and the payment living wages.

Community and media informational pressures

Information-based mechanisms can pressure companies to deliver, or at least report, CSR activities. For example, disclosure in various publicly available reports, whether required (investments) or voluntary (CSR), can require or motivate companies to adopt CSR activities. The pressures in this situation would be those normally faced when marketing to consumers or communities. Making public announcements, for example, creates a competitive environment, as organizations report their CSR activities in response to their competitors' similar actions. This pressure may also be an industry-related pressure, but the ultimate source will be communities and consumers. The need to report will cause companies in China (private, government-owned, or foreign direct investment) to gather information on their CSR activities. In this way, information to help benchmark and improve CSR practices can be used. Whether information-based pressures play a significant role in Chinese CSR adoption is still an open question. If information-based regulatory policy in the U.S. is any indication (for example the Toxics Releases Inventory Reporting), it may prove to be effective in pressuring companies to disclose more about their CSR practices.

Pressure from the media/community was also felt right after the Sichuan earthquake of May 12, 2008. Continuous and extensive coverage was most likely one reason why corporate philanthropic reached record proportions. Part of this effort may have been the result of basic, but stepped-up CSR practices by managers, who viewed the disaster as a way to help those in need. Another aspect is that pressures by communities caused companies to provide support for disaster relief. Media attention was unquestionably a major force in the philanthropic giving of organizations that did not want to be seen as shirking their corporate responsibilities.

Civil society (NGOs) and union pressures

NGOs are a major institutional force that promotes CSR activities (Campbell, 2007). Civil society and NGOs in China have grown significantly since 1978, with greater acceleration in the past decade. In 2009 there were more than 425,000 NGOs in China (MCA, 2010). This growth resulted from the government's inability to provide all the necessary social programs, some of which were consequently transferred to NGOs (Saich, 2000).

As a result, NGOs have been able to grow and become actively involved in various social domains. Most CSR initiatives are congruent with NGO's social missions, which provide a natural platform for NGOs to become another force in the diffusion of CSR activities in China. Firms are able to collaborate with NGOs and implement their CSR practices in various forms, such as making cash or in-kind donations, employee volunteering, collaborating on certain projects or even starting up businesses. For example, in 1995 Hewlett Packard (HP) started a "Cartridges for Dragon Recycling" program by partnering with two NGOs, the Global Village and the Jane Goodall Institute's Roots and Shoots Program. This was the first NGO-corporate partnership of its kind in China (China Daily, 2009).

Given that the government encourages firms to create and embed social and environment value in their activities, NGOs are able to cite government rules and regulations when negotiating their CSR initiatives with local or international firms. Although the government still has extensive

control and governance over NGOs in China, the latter have become more active in society, especially in natural environmental movements (Lin, 2010) and consumer rights (Moon and Shen, 2010). Nevertheless, NGOs whose mission is to promote human rights or labor rights in China are not that popular with the government (Lin, 2010).

Unions in China are different from their counterparts in western countries. About 74 percent of Chinese employees are official members of the All-China Federation of Trade Unions (ACFTU), a subordinate of the Chinese Communist Party. Although union representation is strong, it is mainly engaged in political and ideological education. ACFTU's main goal is to serve the country's interests, though it has been successful in unionizing workers in giants such as Wal-Mart.

Spontaneous strikes, known in the West as wildcat strikes, have been effective in forcing organizations to adopt improved working conditions. For example, in May 2010, 1900 workers at a Honda auto plant in Foshan staged a disciplined, completely unauthorized strike against the Japanese automaker. The workers, 80 percent of whom were young technical school "interns," won a 35 percent increase in wages and benefits in negotiations conducted by 16 representatives directly elected by the workers themselves (Brown, 2010). Union pressure from younger workers is the norm in China today, unlike those in more developed countries where pressure is typically applied by older workers (Wang, 2011). Chinese managers need to pay attention to the possibility of the spontaneous unionization of workers and strikes, and develop an understanding of the causes of unionization, many of which can be avoided with solid CSR practices.

Harnessing the wind

There are ample opportunities for Chinese organizations to bring about social change in China. Whether they are in the realm of safety, human rights, philanthropic, or environmental concerns, changes through industry and profit-making organizations can occur. Ironically, traditional, capitalist instruments and models that have existed in developed and Western countries may be the tools that help a socialist country such as China address many of its societal concerns. Institutional pressures from many channels continue to make Chinese organizations more sincere about their CSR efforts. Does this mean that these organizations in China have moved ahead of the curve? No. But, the winds have started to pick up and organizations should be ready to sail in these waters and recognize that the winds are not subsiding, but may in fact require thoughtful harnessing.

References

- ACFIC, 2008. www.acfic.org.cn/publicfiles/business/.../qggs/.../1237860120761_1.doc Accessed on August 18 2010 (in Chinese).
- Brown, G. 2010. Global electronics factories in spotlight Occupational Health and Safety, <http://ohsonline.com/articles/2010/08/04/global-electronics-factories-in-spotlight.aspx>. Accessed on August 20, 2010.
- Campbell, J.L. 2007. Why would corporations behave in socially responsible ways? An institutional theory of

corporate social responsibility. *Academy of Management Review*, 32(3), 946-967.

China Daily, 2009. From http://www.chinadaily.com.cn/bw/2009-12/14/content_9168018.htm Accessed on Oct 15 2010 (in Chinese).

China Statistical Yearbook. 2005. China Statistics Press: Beijing.

Guangcai Program, 2010. http://www.cspgp.org.cn/13_English/index.htm. Accessed on November 3, 2010 (in Chinese).

Guo, P-Y. & Yu, Y-D, 2006. The performance of social responsibilities by means of the cooperation between public and private enterprises: A case study of programs of supporting the poor in China's causes of "Helping to Start an Undertaking". *Management World*, 4, 41-47 (in Chinese).

Hong, Z. 2004. Mapping the evolution and transformation of the new private entrepreneurs in China. *Journal of Chinese Political Science*, 9, 23-42.

Lin, L-W. 2010. Corporate social responsibility in China: Window dressing or structural change? *Berkeley Journal of International Law*, 28(1), 64-100.

Ma, D., & Parish, W. L., 2006. Tocquevillian moments: Charitable contributions by Chinese private entrepreneurs. *Social Forces*, 85, 943-964.

MCA (Ministry of Civil Affairs). 2010. Statistics on the development of civil affairs 2009. <http://www.mca.gov.cn/>. Accessed on Oct 15 2010 (in Chinese).

Moon, J. & Shen, X., 2010. CSR in China research: Saliency, focus and nature. *Journal of Business Ethics*. 94(4), 613-629.

Saich T. 2000. Negotiating the state: The development of social organizations in China. *China Quarterly*, 161, 124-141.

Tsoi, J., 2010. Stakeholders' perceptions and future scenarios to improve corporate social responsibility in Hong Kong and Mainland China. *Journal of Business Ethics*, 91(3), 391-404.

Wang, K. 2007. A changing arena of industrial relations in China: what is happening after 1978. *Employee Relations*, 30(2), 190-216.

Wang, L., 2011. Perceived equity and unionization propensity in China. *Management Research Review*, 34(5), forthcoming.

Xu, S. & Yang, R. 2010. Indigenous characteristics of Chinese corporate social responsibility conceptual paradigm. *Journal of Business Ethics*, 93, 321-333.

Yuan, Z., Bi, J., and Moriguichi, Y. 2006. The Circular Economy: A new development strategy in China. *Journal of Industrial Ecology*, 10(1-2), 4-8.

Zhang, R., Rezaee, Z., & Zhu, J. 2009. Corporate philanthropic disaster response and ownership type: Evidence from Chinese firms' response to the Sichuan earthquake. *Journal of Business Ethics*, 91, 51-63.

Zhu, Q., Sarkis, J., and Lai, K-H. 2008. Green supply chain management implications for "closing the loop". *Transportation Research Part E: Logistics and Transportation Review*, 44(1), 1-18.