

Chapter 2

BSR in Transitional China: Traditions, Practices, and Future

Huiquan Zhou, Tianxue Qiu and Ling Wang

2.1 Introduction

With incidences of environmental destruction, food insecurity, sweatshops, bribery, corruption, and charity scandal in some private enterprises in China, it seems that rather than talking about “business social responsibility” (BSR) in China, one should be discussing “business irresponsibility.” It is true that BSR and corporate social responsibility (CSR) are foreign concepts that were introduced to China in the mid-1990s due to the lack of socially responsible practice among Chinese enterprises. Many multi-national corporations (MNCs), frustrated by the prolonged unacceptable working conditions in some manufacturing areas, launched an “anti-sweatshop campaign” (Wang and Juslin 2009). It is also true that the Chinese enterprises’ acceptance and adoption of various BSR standards and regulations have been slow, passive, and reluctant. To this day, the Chinese market still does not fully embrace Western BSR standards. Some say that China is only accepting (or pretending to accept) BSR as a way to improve its international image; some suggest that maybe Western standards and guidelines do not translate well into the Chinese reality; and some argue that China is making a genuine effort to promote a real change, just that there are too many structural problems (for a review, see for example, Lin 2010). What exactly is the case?

H. Zhou (✉)

Department of Social Work, Chinese University of Hong Kong, Sha Tin, Hong Kong
e-mail: hqzhou@swk.cuhk.edu.hk

T. Qiu

Xingxingsong Autism Education Center, Beijing, China
e-mail: fallingsnow2005@126.com

L. Wang

Corporate Affairs, Microsoft (China) Co, Ltd., Beijing, China
e-mail: crwang@microsoft.com

Empirical research on BSR in China is rather limited and just emerging. Most of the existing studies focus on the ethical issues, the legislative framework, and the institutional environment for BSR, analyzing in detail the interactions between the government sector and the market sector. Seldom do they pay attention to the nonprofit sector, which is an important partner for BSR initiatives. Furthermore, existing studies tend to discuss only traditional Chinese corporations (state-owned or private) excluding the MNCs and social enterprises (SEs).

In view of these knowledge gaps, this chapter attempts to review comprehensively China's current BSR efforts. The goals of the chapter are to map out the current scope of BSR in China, describe its characteristics, understand the challenges, and identify the future development opportunities. It starts with a brief overview of the social and economic development of the country followed by a discussion on the BSR tradition and the current legislative framework.

We first review the history of BSR in China before the twentieth century to lay the cultural background for the discussion. We also illustrate how BSR was reintroduced in modern China after the economic reform to provide the social and economic background for the discussion. Then, we introduce the current legislative framework for BSR under the Communist Party's leadership. Afterward, we provide detailed data and cases on BSR practices in traditional enterprises (state-owned enterprises, Chinese private enterprises, and multinational corporations) as well as the newly emerged social enterprises. For each type of enterprises, using both the latest research findings and media reports, we describe their current level of performance as well as discuss the challenges that they face for BSR development. The discussion covers both internal BSR (e.g., labor rights, and worker welfare) and external BSR (e.g., quality control, environmental protection, and engagement in philanthropic work). Finally, we conclude with recommendations for policy and practice for BSR in China.

2.2 China Brief

The UNDP *Human Development Report 2010* highlighted the “top 10 movers” in human development from 1970 to 2010; China was ranked second. In the past three to four decades, the country has no doubt impressed the world with its fast development. From a country that could barely feed its citizens, it has transformed into the world's leading producer of many agricultural commodities (FAO 2013). Its industrial and service sectors also have grown significantly. In 1980, China's GDP was only approximately 9% of that of the U.S. (WB 2012); in 2011, the International Monetary Fund predicted that country would surpass the U.S. as the world's largest economy in 2016 (IMF 2011); and in the 2014 IMF predictions, China had already overtaken the U.S. (IMF 2014).

Researchers credit this miracle to the economic reform that started in the late 1970s. This reform separated the government from the enterprises, privatized public enterprises and farms, restored workers' bonus, promoted self-employment and

entrepreneurship, and encouraged competition. All of these strategies worked as incentives to increase productivity and helped create tremendous wealth (Montinola et al. 1995). However, these same set of policies also created problems. For example, the closing down or restructuring of state enterprises cost many people their jobs, health care, or pension (Chow and Xu 2001; Qian and Wong 2000). Due to the unregulated competition, some Chinese enterprises opted to lower their production cost by discarding worker welfare, lowering product quality, or adopting both. These actions made China infamous for sweatshops, and “made-in-China” products commonly became associated with low-quality (Lin 2010). Environmental destruction is another externality that threatens not only the health of the nation but the health of the world as well (Gu and Wang 2012; Niu and Harris 1996).

Without further belaboring, it can be deduced that China has created an economic “miracle” at the expense of social and environmental harmony. In fact, when UNDP praised the “top 10 movers” for their efforts in promoting human development, the organization stated almost ironically that “China was the only country that made the ‘top 10’ list due solely to income performance” (UNDP 2010, p. 2).

The Chinese government is well aware of the problems. On one hand, international investors and traders are placing much pressure on China (Wang and Juslin 2009). In contrast, protests and domestic social unrest show that Chinese citizens can no longer tolerate the externalities of unregulated growth (Lee 2007; Liu et al. 2010; van Rooij 2010). These problems, partially caused by corporate irresponsibility, if left unsolved will threaten economic as well as the environmental sustainability of the country. Hence, in the past 10–15 years, both the public and private sectors have been promoting BSR and struggling to achieve a balance between economic and social development (Lin 2010). In the coming sections of this chapter, we will review these various public and private efforts. To provide a context for the discussion, we will first discuss briefly the BSR traditions in China as well as the current legislative framework.

2.3 Historical Background of BSR in China

Although it seems that the modern Chinese market was created after the economic reform since the late 1970s, and BSR was introduced to China in the mid-1990s by Westerners, private business has existed in China for thousands of years, and the notions of conducting responsible business and giving back to society have also existed in the country for centuries (Wang and Juslin 2009). Confucianism was one of the cultural traditions that value benevolence, righteousness, and honesty; it had great influence on business’ behaviors in the country. As early as 2500 years ago, Zi Gong, one of Confucius’ disciples, had been pursuing a harmonious and responsible business relationship by applying the Confucian virtue of *yi* (righteousness) and *xin* (sincerity) to his business (Wang and Juslin 2009). In the 1600s, due to social and demographical reasons, a large number of Confucian scholars left their traditional path of obtaining official title and became merchants. This created a

class called the “Confucian traders” or “Confucian entrepreneurs” (Cheung and King 2011). With a strong belief in Confucian values, these Confucian traders sought profits with integrity and remained committed to the community’s prosperity (Lee 1996). The merchants from Anhui and Shanxi, for instance, were famous for being sincere, trustworthy, and benevolent (Yu 1987; Zhang and Wang 1995). From the seventeenth century to the late nineteenth century, Chinese merchants’ guilds, or chambers of commerce, established charitable organizations and made donations for various charitable purposes such as disaster relief and caring for orphans (Chen and Liu 2005; Fuma 2005; Smith 2009).

Such standards of business conduct and engagement in philanthropic work were further promoted by the government. It has been repeatedly documented in the history that in times of natural disaster, government officials encouraged merchants to make cash or in-kind donations (Zhou and Zeng 2006). Sometimes, when merchants established an influential charity, the government would praise the effort and promote it as a model for others to follow. *Puji Tang*, for example, established during the early 1700s as private shelters for the poor, the elderly, and the homeless, received praises from the emperor. This resulted in the establishment of many more similar shelters (Fuma 2005). Sometimes, even the government collaborated with the merchants in setting up charitable organizations. The Benevolent Societies (*Tongshan-hui*) were one such example. Set up by current (or retired) officials and rich merchants, such organizations raised donations and provided multiple forms of assistance to the local people including disaster relief, bridge and road construction, free ferry services, support for community schools for indigent village boys, as well as food, shelter, clothing, healthcare, and burial services for the poor and needy (Smith 2009).

The development of indigenous Chinese BSR was violently disrupted by wars and social chaos in the late nineteenth century (first and second Opium War and the invasion of foreign colonial powers that followed) and the first half of the twentieth century (multiple civil wars since 1911, the Anti-Japanese War from 1937 to 1945, and the Civil War between 1945 and 1949). Then, beginning from its independence in 1949, China experienced 30 years of tight Communist control. During this time, private property, business, and entrepreneurship were all considered imperialistic and were condemned. Charity was deemed unnecessary. Cultural traditions, such as Confucianism and Buddhism, were labelled as backward and anti-revolutionary and therefore, were totally disregarded. However, attempts to control social and economic life through central planning only resulted in poverty and more social chaos. In the late 1970s, the Party State had to launch an economic reform, popularly known as “to reform and to open up.” Under the government’s leadership, state-owned enterprises were privatized, private businesses were encouraged, and foreign investment was welcomed (Estes and Zhou 2014; Sun 1998; Zeng 2013).

As discussed previously, this reform achieved great success in terms of economic growth, but it failed to restore the traditional value system or introduce a new one. As a result, the newly emerged enterprises followed the slogan “development is the absolute principle” and pursued economic growth with all means. The government at all levels fell for the “cult of GDP” promoting economic growth at

the expense of social and environmental harmony. This, as we mentioned previously, made China infamous for labour-rights violation, environmental pollution, and low product quality.

In the mid-1990s, Western BSR standards were introduced by MNCs. As part of the supply chain, Chinese enterprises were forced to accept these standards and regulations to please their foreign purchasers (Gugler and Shi 2009; Moon and Shen 2010). Many researchers have documented the Chinese enterprises' bitterness toward these complicated and sometimes self-conflicting standards. According to these documentations, Chinese enterprises complained and protested that these standards, such as the Social Accountability International certification (SA8000), were for developed countries and that they did not take into consideration the realities in developing countries (Lin 2007). In the years that followed, many different organizations had to teach the Chinese enterprises and government the concept of BSR (Wang and Juslin 2009). These external efforts can be viewed as the "push factors" for modern BSR in China.

In addition to the push factors, some "pull factors," i.e., internal efforts, are influencing BSR initiatives in China. The economic reform not only resulted in the establishment of the Chinese market but also promoted social and political changes. Responding to the environmental and social problems, the government launched a series of new initiatives (e.g., Western China Development Initiative of 2000, the Scientific Development Concept of 2003, and the Construction of a Harmonious Society of 2006) asking Chinese enterprises not only to contribute to the GDP but also to narrow the regional development gap, use natural resources efficiently, and avoid exploitation.

At the same time, the Chinese non-profit sector, like the market sector, having flourished before the war and then disappearing for nearly a century, reemerged in the 1980s to address various social and environmental problems. For example, in 1989 the China Youth Development Foundation started their national campaign, Project Hope, to promote rural education. In 1993, Friends of Nature was established to promote public awareness about environmental degradation and endangered wildlife. In 1996, Rural Women opened their House for Female Migrant Worker to advocate for the rights of this vulnerable group. These various organizations' work increased the public's awareness about the social problems and also created a channel for Chinese enterprises to participate in social development. Many donated generously to the non-profit sector, which resulted in its further development (Lu 2009; Ma 2006). Currently China has the world's second largest non-profit sector [in terms of the number of registered NPOs, second only to the USA (Xu and Smith 2012)].

With these various push and pull factors, modern BSR started to take shape in China, especially with the landmark amendment of the Company Law (1994) in 2006 (discussed later in the text). The legislation gave a clear definition of BSR, required employee participation in corporate governance, and emphasized the importance of labor protection. Since then, the government has issued many other executive documents targeting various areas of BSR as well as BSR in different industries.

In addition to the government, market institutions also started to promote BSR. The Shenzhen and Shanghai Stock Exchanges launched their BSR disclosure initiatives for listed companies in 2006 and 2008, respectively. Trade unions, chambers of commerce, and banks either started their own initiatives or partnered with the government (Zhang 2010). China began to embrace BSR, establishing its own BSR standards and regulations, such as a CSC9000 for the textile industry. Attitudes toward BSR have changed significantly from viewing it as a burden imposed by multinationals to seeing it as “a tool for improving competitiveness of the Chinese enterprises in the global market” (Wang and Juslin 2009, p. 437). As of 2013, >300 Chinese enterprises are participating in the UN Global Compact (UNGC 2013).

2.4 Legislative Framework of BSR in China

Despite the government and the public’s enthusiasm, the legislative framework for BSR in China is far from perfect. Although the 2006 Company Law requires all businesses in China to “comply with laws and regulations, conform to social morality and business ethics, act in good faith, subject itself to the government and the public supervision, and undertake social responsibility” (cited in Lin 2010, p. 71), there are no implementation guidelines. In fact, the law employs vague and abstract language, which is open to many interpretations, e.g., there is no definition for key terms such as “social morality” or “business ethics.” Moreover, the law does not specify how businesses could be punished if they fail to behave in a socially responsible way. Thus, the law is more a documentation of the government’s attitudes and expectations with no enforcement strategy (Chao 2008; Shen and Cheng 2009). The other executive documents that followed the 2006 amendment of the Company Law had more or less the same problems. For instance, in 2007 the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) issued the Guide Opinion on the Social Responsibility Implementation for the state-owned enterprises controlled by the central government. This document is more detailed than the Company Law and contains 20 official recommendations including paying tax honestly, protecting intellectual property, ensuring product safety, using energy efficiently, reducing pollution, participating in philanthropic work, publishing BSR report, etc. (SASAC 2008). However, the document is again written in a tone of recommendation rather than as a law. The whole document has no specification on punishment. In some of sections, it even says “if the conditions in an enterprise allow, the enterprise should... (*you tiaojian de qiye yao...*).” Hence, a company can always argue that it does not have the proper conditions to act as recommended by the document.

One may argue that the 2006 Company Law and other executive documents regarding BSR did not talk about details because there are other regulations—such as the Labour Law, the Enterprise Income Tax Law, the Product Quality Law, the Consumer Protection Law, and the Environment Protection Law—which deal with

the various specific areas of BSR. However, many of these laws are equally vague and abstract and lack any enforcement power. Hence, years after the introduction of the Company Law, incidents such as poisonous formula milk, illegal coal mines, and exploitation of migration workers are still happening. Perhaps this is the reason why some suggest that BSR in China is more “window-dressing” than systematic change (Lin 2010).

The existing BSR literature often focuses on the 2006 Company Law and the various government documents that are directly related to business practice. Here, we would like to point out that the non-profit policies also influence BSR practice and BSR research. As many non-profit scholars have pointed out, the non-profit policies in China were deliberately written in a way that favor organizations with a governmental background but are anti-mass mobilization and unfriendly to grassroots efforts (Lu 2009; Ma 2006). As a result, many grassroots organizations could not register as one of the three categories of NPO—namely, social organizations (which are membership-based organizations), non-governmental non-commercial enterprises ([NGNCEs] which are private non-profit enterprises), and foundations. Sometimes grassroots organizations, to obtain a legitimate identity, are forced to register as companies (Watson 2008). The famous One-Kilo More, which connects philanthropic travellers with needy rural schools, and Rural Women, which is active in women’s labor-rights issues, for example, are registered as companies. These organizations’ practice may seem to comply with many BSR regulations in the 2006 Company Law. However, these are not good examples of BSR because they are not businesses but rather charities that were forced to register as companies.

At the same time, although NGNCEs should be non-profit, loopholes in the regulation system give them many opportunities to chase profit while enjoying tax-benefits and donations under the disguise of their social mission. For instance, non-public schools are all registered as NGNCEs. They are prohibited from making profits (CSC 1995), but investors are allowed to receive reasonable rewards (CSC 2002). Because no specification about “reasonable reward” was given in the laws, even the government could not distinguish reasonable rewards from the unreasonable ones (Huang and Xu 2003; Law and Pan 2009), particularly when some schools developed innovative financing mechanisms to channel surplus funds to investors (LaRocque and Jacobsen 2000; Legal Daily 2012; Wen 2004). Researchers have further pointed out that the quality of education in these schools is questionable (Zhao 2012b; Zhong 2011). Originally, the government expected all schools to be “philanthropic (for the public good)” and promoted non-public schools so as to provide more education resources to people who could not partake of public education for various reasons (e.g., children of migrant workers, children in remote rural areas). Now these schools are running like irresponsible businesses that are ignoring their social mission. They are exacerbating, rather than ameliorating, the existing education inequality problem (Hannum and Park 2002; Mok et al. 2009). However because they are registered as nonprofits, researchers seldom look at this as a BSR issue.

In addition to creating enterprises whose nature does not match their legal status, non-profit policies also shape enterprises' BSR practice, particularly their engagement in philanthropic work. First, as discussed previously, because the NPO registration system is unfriendly to grassroots efforts, many organizations do not have legal NPO status. This greatly limits the corporate donors' choice of beneficiaries because donations made to organizations without NPO status do not bring any tax benefits. In fact, such donation might invite trouble because organizations operating without any formal status are technically illegal; the government may shut them down at any time and seize all assets. Thus, corporate donors may feel compelled to support officially registered NPOs (many of which are government-organized non-governmental organizations, a.k.a. the GONGOS) and avoid the unregistered organizations.

Second, the non-profit—regulation system lacks efficient anti-corruption measures. Famous charities—such as the China Youth Development Foundation, China Red Cross, and China Charity Federation—became involved in one financial scandal after another (Chen 2012; Hsu 2008; Simon 2011). According to the 2011 China Charity Transparency Report, charities in China score an average of 33 of 100 in terms of transparency; and only 8% of the public was satisfied with the level of transparency of charities in China, which is a decrease from the already low 9% of the previous year (CCIC 2011). Such a crisis in trust is bound to influence the behaviour of the public including that of the corporate donors. Charitable donations nationwide decreased to RMB 70 billion in 2012 from RMB 84.5 billion in 2011 i.e., 17% in one year.

Third, like almost all other policies in China, all stipulations regarding non-profits, philanthropy, and taxation are subject to change according to state political interest and interpretation (Ma 2006). In other words, the government can single-handedly issue new documents to shape public behaviour. For instance, when natural disasters happen, the government can set up “designated charities for disaster relief.” The traditional designated charities include the government's civil affair system (The Ministry of Civil Affairs in the central government and bureaus of civil affairs within local governments), China Red Cross (and its local chapters), and China Charity Federation. As a result, these three institutions had almost monopolized disaster relief donations. In 2008, the public made a total donation of RMB 76 billion, of which 58.1% went to the civil affairs system and 36% went to China Red Cross and China Charity Federation (Bao 2009). When many other NPOs complained about this unfair arrangement, the government expanded the list of designated charities to 15 after the 2010 Yushu earthquake. However, just as the NPOs were about to celebrate the change, the government issued a new document requiring all charities that wish to be involved in Yushu relief to transfer the collected amount to the Qinghai provincial government, China Red Cross (Qinghai Chapter), or China Charity Federation (Qinghai Chapter). This instruction, although was not performed due to the public furore, is an example of the government's abuse of executive power to direct charity funds to its own accounts.

Taken together, sometimes, businesses in China might seem to be donating to government or GONGOs in exchange for political favour (Dickson 2003; Ma and Parish 2006); sometimes they might seem indifferent to social issues and not making any charitable contribution. Such behavior might not be a sign of social irresponsibility but rather a consequence of problematic non-profit policies.

To summarize, throughout history, the state in China has been strong. The Chinese Party-state, having been retracted from the enterprises during the economic reform, has been advocating for “small government, big society” in the recent past, encouraging private participation in social provision. However, is still “omnipresent and overbearing” (Lei and Walker 2013; Serrano 1994, p. 276; Zhao 2012a). Like in ancient times, the government still has a tremendous influence on the development of the private sector as well as the behavior of the public. However, despite the ambition, the government policies have many loopholes and often lack enforcement power. This creates corruption and destroys public trust. How are Chinese businesses behaving under such a system? What does BSR in China look like now? The next sections provide detailed discussions.

2.5 BSR in Traditional Corporations

Here we use the term “traditional corporations” to refer to three types of business in China: state-owned enterprise ([SOE] including solely state-owned and state-controlled), Chinese private enterprise (CPE), and multi-national corporation ([MNC] including corporations controlled by residents of Hong Kong, Macau, and Taiwan). All of these are for-profit entities and should comply with the BSR regulations in the 2006 Company Law and various other executive orders issued by central and local governments targeting different areas of BSR.

According to the Chinese Academy of Social Sciences (CASS), in 2012 the level of BSR practice among Chinese corporations was low: >60% of the corporations still took a “wait-and-see attitude.” After evaluating governance, product quality, social engagement, and environmental performance, the CASS concluded that SOEs were performing much better than the CPEs and that the MNCs were the worst. In terms of business area, on average, electricity and banking were top performers, whereas real estate, food, automobile, retailing, and consumer goods were low performers. However, within each group differences among diverse businesses entities have been very large. For instance, in telecommunication, Huawei (CPE) scored 74.0, whereas Motorola (MNC) scored -5.0; in the oil industry, SINOPEC (SOE) scored 78.0, whereas SK (MNC) scored 3.8 (CASS-RCCSR 2012). Now, we will review the BSR performance of each type of enterprise in detail.

2.5.1 SOEs: Bureaucrats in Business, Chinese-Style

The CASS' findings about the SOEs may be surprising because it was sometimes believed that the SOEs are a hotbed of corruption (Bradsher 2012). However, it is worth noting that SOEs are under the direct control of the government (Qian 1996) and traditionally have played multiple roles in society (Huang and Hu 2006). Before the economic reform, the SOEs were also welfare providers taking good care of employees' and their family's needs from cradle to grave (Saich 2008; White 1998). After the reforms, those SOEs that did not privatize were often the ones working in the railroad, oil/gasoline, water, electricity, and other areas that are closely related to people's lives. The government believes that by monopolizing these business areas through direct control of the SOEs, it can ensure quality of the crucial products and services and maintain efficient supervision of many different enterprises in the market (South China Weekend 2012). Furthermore, because of this unique set-up, SOEs are seen as the government's image in the market, and the public blames the government for any SOE scandals. The SOEs are also China's most competitive enterprises in the global market: In 2012, 54 SOEs were listed in the Fortune 500. To improve its international image, the government must make sure that SOEs catch up with the international BSR standards.

Due to both the government's willingness and power to enforce BSR in the SOEs, it is not surprising that the SOEs become the leader or pioneer in BSR in China. An influential newspaper, the *South China Weekend*, has been ranking corporations in terms of their BSR performance since 2007. Every year, they report data on the Top 100 BSR performers among the SOEs, CPEs, and MNCs. Their 2012 list of the Top 100 SOE BSR performers may give a glimpse of China's BSR leaders. Among the Top 100, 98% were certified by ISO 9001 for their management quality in 2010, and only 18 had complaints regarding their product quality. In terms of employee welfare, almost all of the Top 100 SOEs have unions. Throughout the years, >98% contributed to social security on time. However, only 62 SOEs out of the 100 on the list passed the OHSAS18001 for occupational health and safety. Compared with the above-mentioned achievements, the SOEs' performance in terms of environmental protection was less satisfying. Only 79 of 100 passed the ISO 14000. In 2010, the SOEs on the list had more environmental problems than those of the CPEs and MNCs (South China Weekend 2012).

In terms of philanthropic work, each year, on average, a top-performing SOEs made approximately RMB 25 million in charitable donations, and the amount was the highest in 2008 because of the Wenchuan earthquake relief. In 2010, 80 of the 100 had some engagement in community development (South China Weekend 2012). It has been reported that SOEs tend to have large-scale philanthropic programs due to their rich political capital (endorsement from the government), financial resources, and nationwide network (CCIC 2011). For instance, until 2012, the State Grid Corporation of China (SGCC), through their collaboration with Project Hope, built 190 primary schools and kindergartens. In some provinces, the company implemented hundreds of poverty-alleviation projects constructing

hospitals, roads, and agricultural-development centers. In 2012, the company maintained an army of >400,000 youth volunteers who provided numerous hours of volunteer services. Aside from supporting philanthropic projects at home, the SGCC expanded their social reasonability program abroad: they spent >RMB 8.2 million to support philanthropic projects in Brazil and the Philippines (SGCC 2012). The SGCC is just one example of the powerful SOEs in China. As of 2010, 10 SOEs established corporate foundations aiming to professionalize their philanthropic work (CCIC 2011).

As encouraging as these figures may seem, the high-performing SOEs on the *South China Weekend's* list are only “outliers” of the group. The CASS’ sample was selected based on economic performance and thus may give a more realistic picture of BSR among the SOEs. Although the CASS praised SOEs to be the leader of all enterprises in China, their SOE sample scored an average of 40.9 with only 3 corporations scoring >80 and 27 scoring <20. This means the majority of SOEs are still trying to catch up with the government’s standards. The China Charity Information Center also pointed out that although SOEs made large sums of donations, and that they usually do not need to use philanthropic work as a means of marketing or for accessing political favor (because they are already monopolizing the market), their involvement in “social responsibility” is not voluntary. In fact, many SOEs view philanthropic work as fulfilling their responsibility to the government. They do not have a vision for philanthropy or a long-term interest in a particular social issue. They follow the party’s agenda, supporting causes identified by the government, without even asking about the impact of their contribution (CCIC 2011).

2.5.2 CPEs: Making Great Improvements

The CASS’ sample of the CPEs scored an average of 15.2 in BSR, less than half that of the SOEs’ average score. Although the high performers among CPEs—such as Huawei (telecommunication), Mingsheng Bank (banking), Industrial Bank (banking), Lenovo (IT), and Suning (electrical appliance retailing)—all scored between 60 and 80. Approximately 80% of the CPEs in the sample scored <20, which means they were hardly doing anything if not actually engaging in socially irresponsible practices.

However, the *South China Weekend*, in their 2012 Top 100 CPE BSR ranking report, praised CPEs for making great improvement in BSR. In 2010, among the Top 100, 96 passed ISO 9001 for management quality (approximately stable compared with 2007); 88 passed ISO 14000 for environmental protection (up from 76 in 2007); 69 passed OHSAS18001 for occupational health and safety (up from 37 in 2007); 96 had unions (approximately stable compared with 2007); and 100% were paying social security on time (approximately stable compared with 2007). Only 2 of 100 had environmental-violation cases, and 5 had labor disputes. In 2007, on average, top-performing CPEs made RMB 17.8 million charitable donations;

and in 2010, on average, the amount increased to RMB 44.1 million. In 2010, 78 of the Top 100 CPEs had some engagement in community development.

Comparing the *South China Weekend*'s report with the CASS' report, it seems to suggest that although the majority of the CPEs are BSR laggards, the top performers are performing as good as, if not better than, the SOEs. Particularly, the CPEs are more generous in terms of philanthropic work. In 2010, the CPEs made a charitable donation of RMB 38.6 billion, which constituted 64.6% of overall corporate donations and 37.4% of overall donations nationwide (CCIC 2011).

If we do not try to force Western BSR standards on CPEs, we may appreciate their contribution to social development more. Before the economic reform, there was virtually no private business in China. In 2005, although the government still considered SOEs as the pillar of China's economy, private businesses (CPEs and other types including self-employment) contributed 65% of the nation's GDP (Huang and Hu 2006). Private businesses may not have a BSR program, or may not even know what BSR is, but they answered the government's call for poverty alleviation and created tens of thousands of poverty-alleviation projects using their entrepreneurial spirit. In 2009, there were 19,188 such projects running nationwide, totaling an investment of RMB 186.4 billion, which provided training for 4.42 million individuals and employment for 5.4 million individuals. Thanks to their efforts, >10 million individuals came out of poverty (Huang 2009).

In addition, China's private business leaders are taking their creative spirit and entrepreneurial skills into the nonprofit sector by setting up foundations. In 2011, nationwide, 285 foundations were established by corporations or corporate executives, which constituted 22.3% of all private foundations in China (CFC and CCA 2011). Although many donors in China are not willing to support grassroots organizations, the prominent corporate foundations—such as the Narada Foundation and the YouChange Social Entrepreneur Foundation—are giving grants to nonprofit start-ups so as to promote social innovation through grant-making. These two foundations are also among the few that are willing to cover the administrative cost of grantees, whereas most of the other donors want their money to go directly to the individuals and communities in need, thus seriously undermining sustainability and development potential of the grassroots organizations (Zhou 2015).

Furthermore, unlike the government and the GONGOs, who started to encourage transparency as a reaction to the public furor after the Red Cross Scandal, private foundations, many with a corporate connection, initiated self-regulation as early as 2009. This initiative aimed to increase transparency, efficiency, accountability, and justice in private foundations (CBMNPO 2009). Although not all foundations joined this movement, among the 50 most transparent foundations in China, 14 were of a corporate background (established by corporations or corporate executives), and only one belonged to an SOE (CFC 2013). Adream Charitable Foundation, also of corporate background, was ranked by Forbes China as the most transparent foundation in both 2011 and 2012 (Forbes 2012).

In short, the BSR performance of CPEs in China seems to vary quite a bit. The high performers have a potential to be leaders of the field. They have developed

their own BSR agenda as opposed to just following the government's orders. Moreover, when engaging in philanthropic work, they are more willing to comply with international standards (e.g., financial transparency) and are actively promoting responsible BSR practice in the business community. However, the seemingly low performers are not all onlookers. Some of them may not understand the concept of BSR, but they have answered the government call to promote economic and social development by providing training and job opportunities.

2.5.3 MNCs: Practicing Double Standard?

MNCs brought the modern concept of BSR to China, but ironically, as per both the CASS' and the *South China Weekend*'s report, they performed at the lowest level. The CASS gave their sample an average of 13.2 in BSR score. Intel (68.5), Cannon (64.2), LiteOn (60.4), SONY (52.6), and Samsung (49.0) were identified as leading performers. Most of the others were either just starting to engage in BSR or doing nothing at all. On average, according to the CASS, corporations from East Asia (Taiwan, Japan and Korea) performed better than those from the west (RCCSR 2012).

The *South China Weekend*, however, identified more problems than good practices at the Top 100 list. In 2010, 99 of the Top 100 MNCs passed ISO 9001, but 32 of them had complaints about their product quality. MNCs had the highest percentage of ISO 14000 certification (96%). However in 2010, 9% had environmental violations. All of the MNCs were paying social security on time, and 72 passed OHSAS18001, but only 82% had unions, and still 5% had major labor disputes. The MNCs' charitable donations varied greatly in different years. The average amount peaked in 2008, approximately RMB 32.9 million, and decreased to only RMB 5.1 million in 2009, probably due to the global financial crisis. The contribution amount came back to approximately RMB 22.8 million in 2010. The MNCs' community engagement (e.g., sending employees as volunteers to work in the community) also peaked in 2008 at approximately 94%, but it decreased dramatically later. In 2010, only 53% had some kind of community engagement.

The *South China Weekend* believed that MNCs' BSR performance is greatly influenced by the global market. For example, in 2008, when the financial crisis hit, 22% of MNCs on the list had to cut salary or lay off employees, thus resulting in more labor disputes. However, market fluctuation does not explain some of the high-profile labor-violation cases involving MNCs. The most infamous among the MNCs should be Foxconn (Taiwan), which is a supplier for companies such as Apple, HP, and Dell. In the past few years, Foxconn was constantly linked with employee suicides, child labor, low wages, extreme overtime hours, and other violations of labor laws. In 2012, among the 11 most discussed labor disputes on the Internet, Foxconn was involved in six (South China Weekend 2012). Now the company is popularly known as "the sweatshop." Although Apple claimed in its 2012 Supplier Responsibility Progress Report that Foxconn had made progress in

many areas and workers are satisfied with their status (Apple 2012), the public and many NPOs, such as the Institute of Public and Environmental Affairs, still criticized Apple's performance in supply-chain management (Friends of Nature et al. 2013).

In fact, supply-chain management is a crucial component of the MNCs' BSR performance, and it is greatly influenced by the institutional environment (Cai et al. 2010; Yaibuathet et al. 2008). The situation was exacerbated due to the governments' focus on economic growth. For example, local governments, especially in the less-developed areas, were eager to attract investment because the government officials were evaluated on the rate of GDP growth during their tenure. As a result, local authorities sometimes turned a blind eye to (or even facilitated or encouraged) unethical or illegal practices of MNCs. For example, Foxconn, experiencing severe labor shortage after having been accused of child-labor exploitation, sought help from the Administration Committee of the Yantai Development Zone; the latter asked local vocational schools to send their students (aged 14–16) to Foxconn for "mandated internship." The students sometimes worked as long as 12 h a day and ate only one meal (Xinhua News Agency 2012).

Similarly, various levels of government in China might have been tolerating the MNCs' environmental harms. However, in recent years, the focus has shifted to sustainable development, and local officials, no longer being evaluated on the basis of their contribution to the GDP creation, are likely to respond to more environmental complaints and conduct more investigations. This may result in the exposure of more lapses. In other words, the fluctuations in the observed BSR performance might not reflect the actual changes in the MNCs' behavior but rather are a reflection of the government's changing investigation efforts.

The MNCs' product quality is, however, a slightly different story. Consumers in China used to have a preference for foreign brands associating them with concepts of sophistication, modernity, novelty, and faddishness. However, with the rise of Chinese brands, and the improvement of quality of life in China, Chinese consumers' preferences are changing (Zhou and Hui 2003). The MNCs found it harder and harder to make profits. Because there is currently no law in China barring MNCs' from practicing double standards, some MNCs, in order to maximize profits, tend to produce low-quality goods for the Chinese market while charging comparatively higher prices than other markets (People's Daily 2012). After a few of these cases were exposed, consumer-rights activists and the media worked to increase public awareness. The development of online social media also facilitated networking among consumers, resulting in the reporting of many such cases. For instance, one consumer posted online that he had a hard time closing the door of his Siemens refrigerator. Soon he got over 500 replies complaining about the same problem (Wang and Wang 2012).

In terms of philanthropic contribution, some analysts pointed out that MNCs tend to engage in short-term or one-off philanthropic work. Thus, it is not hard to understand why their charitable donations and community engagement both peaked in 2008: The Wenchuan earthquake called for large amount of cash and in-kind donations, and the Beijing Olympics provided many opportunities for volunteering.

When these two events ended, and the financial crisis hit, MNCs reduced their philanthropic work. Previous research also pointed out that indigenous Chinese corporations (SOEs and CPEs) are more likely to donate, for charitable purposes, in areas such as disaster relief, poverty alleviation, education support, and rural development; MNCs, however, tend to make more calculated donations in exchange for publicity, marketing, and the betterment of employee or customer relations (Yang and Ge 2003). This might reflect the difference between the Western idea of BSR and that of the traditional Chinese BSR culture. Although the Western concept emphasizes the simultaneous fulfillment of a firm's economic, legal, ethical, and philanthropic responsibilities (Carroll 1979, 1991; Schwartz and Carroll 2003), the Confucian traders never linked benevolence and righteousness with profits but rather often placed benevolence and righteousness before profits (Wang and Juslin 2009). However, we should not jump to the conclusion that all MNCs in China are engaging in short-term and superficial community work. Many MNCs have a long history and tradition of practicing BSR in China. For instance, P&G has a long-term partnership with China Youth Development Foundation and has donated RMB 70 million in the past 17 years as well as established 200 Hope Schools in China (P&G 2013). Furthermore, aligning philanthropic work with business expertise is not a bad practice either. Amway, for example, establishes nutritious kitchens and trains school cooks. With Amway's expertise and efforts, >150,000 rural children receive a nutritious lunch at school (Amway 2011).

In general, the evidence seems to suggest that some MNCs are practicing double standards in their countries of origin and in China, their hosting country. Such discrepancies in their BSR performance could be a result of the institutional environment in China (Tan 2009). Media and consumer-advocacy groups may help to urge MNCs to amend their ethical shortcomings. To avoid superficial engagement in local social development, MNCs may want to align their philanthropic work with their business expertise.

To summarize this section briefly, the overall BSR-development level among traditional corporations in China is relatively low. The majority of traditional corporations, i.e., the SOEs, CPEs, and MNCs, are either not engaging in BSR or have just started to learn about BSR. One of the major reasons of such low performance has been the government's development policy, which used to put economic growth ahead of social development and environmental protection. Now that the government is shifting their focus of work and promoting sustainable development, the situation has started to change. However, as discussed in the previous section, because the laws and regulations are vague and lacking enforcement capacity, many corporations do not feel any compulsion to initiate BSR programs.

2.5.4 BSR Among Social Enterprises

The terms "social enterprises" (SEs) or "social businesses" refer to non-loss, non-dividend companies designed to address a social objective (Yunus 2008). BSR

among the Chinese SEs is a less discussed topic, probably because people assume that these enterprises are set up to fulfill social missions. However, because BSR also includes employee welfare and product quality, which does not necessarily align with SEs' social missions, it is important to subject SEs to standards similar to those of traditional corporations (Cornelius et al. 2008).

When talking about SEs in China, we must first discuss the welfare enterprises (WEs). These are a special type of business entity that was first established in the 1950s. They employ physically and/or cognitively challenged individuals and are distinguished by a minimal ratio of such individuals as a proportion of their total employees. To promote employment among physically/cognitively challenged individuals, the government offers the WEs a tax reduction or exemption benefits, and the WEs use the tax savings as enterprise-development capital and group-welfare funding. The government's generosity, however, was abused by some business owners. They deliberately hired persons with disabilities to avoid tax. It was reported that in 2006, each physically/cognitively challenged employee in a WE cost the government approximately RMB 40,000 RMB, totaling RMB 30 billion annually. The physically/cognitively challenged employees, however, were sometimes paid less than RMB 1000/month (Ke 2006). To end such abuse, the government initiated several waves of investigation aiming to shut down the abusive WEs. Finally, in 2007, a tax policy was revised capping tax exemption on every physically/cognitively challenged employee to RMB 35,000 (MFPRC 2007). This seemed to have successfully discouraged WE tax fraud. However, it also put many WEs in a difficult situation. Being small, technologically outdated, and often ill-managed, many of the WEs could not survive fierce competition in the market (Ma 2009; Wang 2012), and many went out of business. During the peak time in 1995, there were 60,237 WEs nationwide employing 939,000 workers (NBSC 2006); the numbers decreased to 22,383 and 627,000, respectively, in 2009 (NBSC 2010).

The Western idea of SE was introduced to China only recently. In 2009, The British Council launched the Skills for Social Entrepreneurs training program in China, inviting many Chinese NPO leaders to visit the U.K. to learn about social enterprises. As discussed previously, due to the unfriendly registration system, many grassroots organizations could not obtain legal NPO status. This seriously limits their chances of getting government funding or corporate donations. The idea of "self-sustainability" came right in time for the NPOs with funding constraints. As a result, many Chinese NPOs changed themselves into SEs. The Beijing Hongdandan Education and Culture Exchange Center (registered as a business), for example, provides barrier-free cultural products and services for the visually impaired. In the past, Hongdandan relied solely on donation and grants. After attending British Council's training, in 2011 Hongdandan developed a series of new products and services such as large-print calendars, Braille desk calendars, Braille business cards, and Braille travel maps. The designing and retailing of these barrier-free cultural products brought profits to the enterprise.

As attractive as the self-sustainability idea may seem, many of the NPO-turned-SEs lack business experience, skills, and infrastructure. They are not

used to the culture of the business world, which is very different from the charitable sector (BC 2008). As a result, many of them are struggling between the business model and the nonprofit model and have to rely on various sources for income. Hongdandan, for example, is still raising donations, applying for grants, and obtaining government procurement. In 2012, product sales, government procurement, and donations from foundations and businesses each made up one third of Hongdandan's revenue. In addition, Hongdandan received funding from Lenovo's venture philanthropy arm. Even with drawing on multiple sources of income, many SEs are still not self-sustainable. The FYSE's report (2012), for example, found that fewer than half of their sample had achieved financial self-sustainability.

Only a handful of SEs were set up to be social business from the very beginning. These entities tend to follow a clear business model. Qian-xiang Wan-cai Science and Technology Co. Ltd. for example, thrives under its motto "start with philanthropy, end with profits (*shiyu gongyi, zhiyu yingli*).” The company uses e-business to promote market development in western China. One component of their business is building computer and networking centers in rural schools in western China. They have helped >100 schools establish their own Web sites and have facilitated schools' communication with educators both at home and abroad. The company employs >100 people, and it does not receive government grants or private donations.

Interestingly, some businesses are often identified by researchers as SEs but self-identify as traditional corporations. Beijing Landwasher Science and Technology Development, for example, has a mission "to protect and conserve the environment through advocacy of energy and ecological conservation and carbon emission reduction." It produces environmentally friendly toilets that use a water-free flushing system. This technology improves rural community's sanitation conditions and at the same time conserves resources. Since 1999, Landwasher has sold >2200 of its environmental toilets, thus making a great contribution to public health and environmental protection. It generates a sales revenue of RMB 66.4 million annually, which is not only far greater than almost all other self-identified SEs, but it also makes Landwasher a leader in the environmental-sanitation industry in China (FYSE 2012). Various researchers and environmental activists have referred to Landwasher as a "successful SE." However, Landwasher does not identify itself as an SE.

Currently there is very limited knowledge regarding the product quality of SEs, although we know that SEs concentrate in the same areas as NPOs. Such areas include education, poverty alleviation, environmental protection, health care, child welfare, and other social services (Yu 2011). Previous studies on Chinese NPOs found that due to a lack of professional knowledge and skills, NPOs' services are often of poor quality (Lu 2009). This lack of knowledge and skills is very often a direct result of limited human and financial resources. Many NPOs usually offer low wages and scarce employee benefits. Recent surveys found that the situation is similar among the SEs (FYSE 2012). Thus, these entities suffer from high turnover rates. They also have limited resources to invest in professional development, which further hinders their ability to improve product quality. As a result, although

SEs are mission-driven entities that aim to benefit the society, currently in China it is possible that many perform poorly in both internal and external BSR.

Nonetheless, it is difficult to have a systematic overview of the BSR performance of SEs in China. One of the major reasons is that unlike corporations, which are registered with the government as business entities, SEs could be registered as any type of organizations or may be operating without registration. Hence, there is no easily accessible sampling frame. Moreover, both practitioners in the field as well as researchers seem to have different definitions for SE (see our Lanwasher example). Nevertheless, many researchers and activists have discussed the challenges facing Chinese SEs and ways to improve their performance (FYSE 2012). Aside from urging the Chinese government to improve relevant policies, other recommendations are similar to those made for the SEs all over the world. Investors must be patient, and provide funding support to nurture the SEs (Emerson et al. 2007), whereas SEs must improve their governance, management skills, and product quality to make themselves competitive in the market (Chell 2007; Choi and Kim 2013). The Chinese SEs, including the WEs, still have a long way to go. Fortunately, some Chinese social investors are already taking action. As mentioned earlier, prominent corporate foundations, such as Narada Foundation, and YouChange China Social Entrepreneur Foundation, are now supporting start-up SEs.

2.6 Conclusion

This chapter painted a picture of BSR in China. By reviewing China's history, we pointed out that although the modern notion of BSR was introduced by Westerners, China had its own BSR culture rooted in Confucianism. This tradition was disrupted by wars, social chaos, and tight Communist control. The current level of BSR development among these traditional corporations is quite low. For SEs, including the newly emerged NPO-turned-SEs, as well as WEs there are lack of resources and skills challenging their ability to fulfill the social mission. Hence, BSR development among these entities is also low.

Since its independence, China spent has 30 years in political movements and then 30 more years in economic reform. Now the government is placing the focus of their work on social development. Under Hu Jintao's leadership, the government put forward the idea of the Harmonious Society (Saich 2006, 2007). The new Xi Jinping leadership introduced the idea of the Chinese Dream, which has two folds of meaning: improve quality of life and regain national pride (Friedman 2012). Whether to build a harmonious society, or to fulfill the Chinese dream, the participation of the market sector is crucial. We need high-quality products and services to meet various societal needs, a healthy and fair working environment to let individuals fulfill their potential, to use resources efficiently, and to properly dispose of waste to avoid environmental harm, and to offer a warm helping hand in times of difficulty. All of these actions call for socially responsible practice among the

businesses. Now, when China tries to re-develop BSR, it faces many challenges: The government's policies have many loopholes, and local governments and many of the traditional corporations—SOEs, CEPs, and MNCs alike—are used to putting economic benefits before social responsibilities.

How can we improve BSR in China? The government certainly must play an important role. Many have criticized the Chinese government as being authoritarian, complaining that it exerts too much control over various aspects of social and economic life. In fact, years into the reform, a more accurate term to describe the Chinese government might be “entrepreneurial government” (Hubbard 1995; Nee et al. 2007; Yu 1997). Government at all levels acted like entrepreneurs and created an economic “miracle” in China. In a way, the Chinese government ran the country like a business during the past 30 years, chasing profits at all cost. Now, facing serious consequences, government entrepreneurs want to introduce BSR into their practice and run the whole country as a socially responsible business. Unlike in a pure free-market economy—where government has limited intervening power and BSR is more a choice of the businesses—in China the government can lead BSR reform similar to the economic reforms. We already see the influence of the government in the newly created laws and in its shifting away from the worship of the “almighty GDP.”

To promote BSR development, the Chinese government would need to refine the current legislative system, avoid vague and abstract language, provide clear implementation strategies, and introduce penalties for violators. The government should require, rather than recommend, BSR audit and disclosure. At the same time, the government also must take measures to promote the non-profit sector, especially for BSR partnerships between the nonprofit business sectors. If NPOs do not have the capacity, the resources will be wasted. If the NPOs are not transparent, corruption will destroy businesses' faith in the non-profit sector. Furthermore, NPOs can also become BSR auditors, and even BSR trainers, to motivate the “BSR laggards” to adopt socially responsible practices.

Of course, China today is not like China in the early 1980s. Given the rise of market and non-profit sectors, a better-educated population, more communication with international society, and wide use of the Internet and other communication technology, the government may not be as powerful as it was before. In one of the examples discussed previously, when the government tried to force NPOs to transfer their funds to “government-designated charities” for the Yushu earthquake relief, the NPOs' fierce protest forced the government to give up this plan. Thus, we can see that the private sector in China has gradually grown to influence government policy. The private sector is also taking action to promote social development through various programs such as the self-regulation movement of private foundations. Thus, BSR promotion in China seems to be not a solely top-down effort but bottom-up effort as well.

Another factor that might promote BSR development in China is the revival of traditional culture, particularly Confucianism (Bell 2008). Rather than forcing businesses to adopt foreign BSR values and standards, China could rediscover Confucian ethics in business conduct. After all, Confucian traders had been

successful in history, and the Confucian interpretation of BSR might be easier for people to accept. After successfully creating a market economy with Chinese characteristics, China might want to create BSR with Chinese characteristics in the near future. In fact, the process already seems to have begun.

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