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Mantian Wang  
*Shanghai Jiao Tong University*

Rongming Ren  
*Shanghai Jiao Tong University*

Guiyi Hu  
*Shanghai Jiao Tong University*

Hongyong Lu  
*Sunday Consulting Company*

Ilan Alon  
*Rollins College, ialon@rollins.edu*

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**Social Burden, Social Venture, or Social Responsibility?**

--- A Reflection on CSR in China and CSR Strategy Suggestions for  
Multinational Companies in China

Mantian Wang, Rongming Ren, Guiyi Hu, Hongyong Lu

Correspondent author name: Mantian Wang

Position: Lecturer

Affiliation: Antai College of Economics and Management, Shanghai  
Jiao Tong University

Postal mail address: Antai College of Economics and Management,  
Shanghai Jiao Tong University, No. 535, Fa Hua Zhen Road,  
Shanghai 200052, China

Email address: mtwang@sjtu.edu.cn; wangmantian@hotmail.com

Telephone number: 008613341696060

Biographical notes: Mantian Wang is a lecturer at Antai College of  
Economics and Management, Shanghai Jiao Tong University.

Author name: Rongming Ren

Position: Professor

Affiliation: Antai College of Economics and Management, Shanghai  
Jiao Tong University

*Author*

Postal mail address: Antai College of Economics and Management,  
Shanghai Jiao Tong University, No. 535, Fa Hua Zhen Road,  
Shanghai 200052, China

Email address: rmren@sjtu.edu.cn

Telephone number: 00862152301227

Biographical notes: Rongming Ren is a Professor at Antai College  
of Economics and Management, Shanghai Jiao Tong University.

Author name: Guiyi Hu

Affiliation: Antai College of Economics and Management, Shanghai  
Jiao Tong University

Postal mail address: Antai College of Economics and Management,  
Shanghai Jiao Tong University, No. 535, Fa Hua Zhen Road,  
Shanghai 200052, China

Email address: fredhgy@sjtu.edu.cn

Telephone number: 008613701995419

Biographical notes: Guiyi Hu is a PhD candidate at Antai College of  
Economics and Management, Shanghai Jiao Tong University.

Author name: Hongyong Lu

Position: General Manager

Affiliation: Sunday Consulting Co.

*Title*

Postal mail address: Suite 1702 Bldg #1 Huicui Garden

Lane 737 Caoxi Road N. Shanghai 200030

Email address: hongyonglu@gmail.com

Telephone number: 862164690722 ext 17

Biographical notes: The majority of Hongyong Lu's career life relates to journalism, mainly working for *China Daily* and *Shanghai Daily*, plus a year with a business magazine, a TV program, and online consulting respectively. Presently, he is the general manager of Sunday Consulting Co.

Ilan Alon

International Business and The China Center

Rollins College

1000 Holt Ave

Winter Park, Florida 32789

USA

ialon@rollins.edu

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*Author*

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## **Social Burden, Social Venture, or Social Responsibility?**

--- A Reflection on CSR in China and CSR Strategy Suggestions for  
Multinational Companies in China

**Abstract:** Thirty years into its reform and opening, the People's Republic of China (referred to as China) has become aware of many international practices, including corporate social responsibility (CSR). Yet FOR Chinese enterprises, CSR seems similar to the heavy social burdens of THE state-owned enterprises (SOEs). The "cradle-to-grave" welfare system, notorious but standard in THE planned economy, played a role in the failure of most SOEs to compete with the new, burgeoning private sector. Although laws were promulgated to free the SOEs from their "social burdens," the new township enterprises set a different example. Some of the latter even profited from their "social ventures." A comparison of the approach of the state sector and that of township enterprises sheds light on how MNCs can best tailor their CSR strategies to the Chinese situation.

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**Key words:** CSR; corporate social responsibility; SOE; state-owned enterprises; TVE; township and village enterprises; MNCs; multinationals; strategic CSR; People's Republic of China.

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## **I. Introduction: The CSR dilemma in China**

As multinational companies (MNCs) expand their global foray, the idea of Corporate Social Responsibility (CSR) is flourishing across their global supply chain, in part due to pressure from their customers. At the end of the last century, CSR was already an important issue for all companies, including companies in China. Although Chinese interest in CSR is a relatively recent phenomenon, the notion of CSR resulted in a nationwide debate. CSR obviously has different implications in the context of China, especially during the process of economic transition that was initiated in December 1978 when China decided to begin its reform and opening-up policy at the Third Plenary Session of the 11th Central Committee of the Communist Party. As a result, there have been dramatic changes in China over the past three decades, both in terms of the external economic situation and the internal management of enterprises. This constitutes the specific background to CSR in China.

The 1978 economic reforms first sought to revitalize the state sector. At that time state-owned enterprises (SOEs) accounted for



*Author*

77.6 percent of gross industrial output and 85 percent of national revenue (Yang and Qu, 2008). But poor efficiency in the state sector crippled the growth of the national economy. From 1997 to 2001 the number of SOEs was cut by 33.6 percent. Even among the surviving enterprises, half were still operating at a loss. The average ROI of the SOEs was a meagre 3.3 percent, that is, below the interest rate (Han and Zhang, 2003).

To remedy this, parallel to its orthodox public ownership, China began to consider pilot programs of diverse types of ownership. Township and village enterprises, or TVEs, were the first new type of ownership to appear. Their number soared 15-fold from 1978 to 1996 (Zou, 2000). It should be remembered that the TVEs emerged not because they were desired by Beijing, but because by nature they represented a compromise between the face value of collective ownership and the competence of the private sector. At the time, no one anticipated that their rise would ultimately contribute to the collapse of the state firms.

In 1993 China entered its third phase of reforms to revitalize the SOEs. A priority was to free the SOEs of the social burdens of companies in socialist countries that represented a main stumbling block to their efficiency and finally led to their failure.

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When the CSR movement first made its debut in China, many Chinese enterprises were still feeling the effects of the SOE reforms. It was generally believed that due to their social obligations, the SOEs had to incur extra costs, eventually resulting in huge losses. Many Chinese companies were reluctant to play any social role, for fear of a replay of the earlier history. It was not expected that China was destined to be one of the top CSR global advocates.

After three decades of reform and opening, China has established a socialist market economy with considerable success. But this has come with a price. As the undeniable workshop of the world, in tandem with its economic takeoff China became mired in “environmental destruction and excessive consumption of resources.” The China Economic Research Institute for Territorial Resources estimates that 24 out of the 45 types of minerals found in China will be depleted by 2010, and only six types will remain in supply by 2020 (Sun and Wang, 2005). The World Bank has warned that 16 out of top 20 polluted cities in the world are in China (Bird, 2006). The past thirty years also saw a widening of the income gap, with the Gini coefficient reaching a dangerous level of 0.45 (Deng, 2008). The promotion of CSR in China will both buffer these pressures and sustain the economic growth.

*Author*

But CSR also created a dilemma. In hindsight, the state firms feared any social burdens, but looking ahead companies had to become more involved with CSR. The situation at China Petroleum and Chemical Corporation (Sinopec), the first pilot base selected in 2004 to test-run the government campaign to free key state firms from their social burdens, is indicative of this dilemma. Sinopec also spearheaded the promotion of CSR in China. In his keynote speech at the “Corporate Social Responsibility Forum” in 2004, Wang Jiming, vice chairman of Sinopec, unlike most other companies, committed Sinopec compliance with CSR practices (Wang, 2005).

Nevertheless, in sharp contrast to the SOEs’ efforts to relieve themselves of their social functions, was the pro-active initiative of China's TVEs to engage in social programs. Since the 1990s, the SOEs had blamed their incompetence and low efficiency on their heavy social burdens, while much had been done to relieve them of their commercially nonviable assets. At the turn of the century the TVEs voluntarily chose to engage in the construction of social infrastructure and to provide social services. After decades of development, the TVEs that had emerged from the socialist market economy began investing in community infrastructure programs and social activities. Surprisingly, these efforts were affordable,

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and even at times profitable, unlike similar efforts in the state sector.

Based on a study and comparison of these two typical Chinese phenomena, one a mandate-driven obligation and the other a voluntary action, this paper will attempt to explain and clarify this distinction for MNCs that intend to deploy CSR strategies in China. The paper is organized as follows. The literature review in section two reveals that a major corporate concern is stakeholder value rather than shareholder value. Instead of taking a reactionary or defensive stance by simply donating money, studies show that corporations can better leverage their organizational resources to solve social problems and also to create commercial value. By adopting CSR strategies, corporations can anticipate expect win-win results from their social endeavours. In section three, we explain the different motives and returns of the SOE and TVE social functions. Section four provides some suggestions for the promotion of CSR by MNCs in China. Section five presents some concluding remarks.

## **II. Literature review: From shareholder to stakeholder and from altruistic philanthropy to strategic CSR**

*Author*

Global industrialization since the 1920s has contributed to many of our concerns today, from the income gap to labour disputes, from consumer and occupational hazards, and from environmental deterioration to resource depletion, to name but a few. All these concerns can be attributed to the continuous expansion of capital and the profit-seeking nature of enterprises. As a result, the role of enterprises in the development of society became a major topic of study.

In 1923 Oliver Sheldon of the United States put forward the concept of “corporate social responsibility”. He held that shareholder profits are not an exclusive justification for the existence of a company. Apart from shareholder interests, companies need also to maximize their social gains, including benefits for their employees, consumers, the environment, disadvantaged members of the community, and the society at large (Sheldon, 1923). In 1984 Freeman went a step further to introduce the concept of stakeholder. He defined stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984, p.46), including shareholders, employees, customers, suppliers, the local community, and the entire society. Beginning in the 1990s, stakeholder theory has dominated studies of CSR. U.S. economist

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Blair (1995) justified the stakeholders' capacity as a subject of interest by pointing out that like shareholders, other stakeholders also invest in companies and such investments are as much at stake as share capital. For instance, employees invest in firm-specific human capital, such as skills, capabilities, procedures, and personal relations that need to be rewarded, just like the financial investments of shareholders. Therefore, non-shareholder stakeholders are also residual claimants of the enterprise and are entitled both to a role in corporate governance and to part of the economic surplus (Blair, 1995; 1996; 1998). This idea provided a new perspective to study CSR: companies are socially responsible for all stakeholders that have invested firm-specific capital and should maximize goods to all the stakeholders.

With public fears mounting regarding social and environmental crises, calls for CSR in the industrial world became increasingly vocal by the 1980s, requiring that companies with higher moral standards assume some social functions. Toward the mid-1990s the CSR movement had shifted its centre of gravity from the question of whether companies should be socially responsible to the question of how companies can both do well and do good. In light of the strategic philanthropy proposed by Porter and Kramer (1999), corporate spending on altruistic philanthropy often results in

*Author*

a win-win situation for both givers and takers. Enterprises not only can help solve social problems through altruistic philanthropy, but also can profit from the win-win results (Porter and Kramer, 1999; 2002). Porter and Kramer (2006) suggested that when CSR is integrated into corporate strategy, it can be “much more than a cost” and also “a source of competitive advantage”, yielding financial returns (McWilliams and Siegel, 2001). From CSR philanthropy to CSR strategy, CSR activities are becoming more calibrated to align with mainstream corporate business. Today any company that does not have a coherent CSR policy runs the risk of ceding its competitive advantages to its rivals. Consequently, the study of CSR has shifted to how enterprises can better use their CSR strategies to facilitate corporate operations.

### **III. Enterprise social functions in China**

#### **1. SOEs providing all social welfare: Social burdens**

During the central planning period in China, SOEs were self-contained units offering all sorts of social services to their employees and their families. These social services, from bakeries

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to nurseries and from schooling to housing, were offered at below-cost prices with no consideration of their business implications. The consequences of the SOEs playing a dominant role in social welfare were chronic and perverse. Coupled with the bloated number of employees, many SOEs suffered disastrous results.

In its early years, the new People's Republic chose to follow the big-government-and-small-society model, with the government dictating the availability and allocation of all goods and services necessary for the livelihood of its citizens. Due to the acute short supply of literally all consumer and capital goods during the infancy of the People's Republic, the government became the ultimate supplier of all goods and services through the SOEs. This was possible because in the binary social structure, the farmers depended on their own self-subsistence. The SOEs were responsible for the urban areas and the new industrial towns. The latter arose in the mountainous hinterland when China relocated its heavy industries as the outside world imposed economic embargoes. Such new towns, often emerging from nothing, were situated around a single SOE; local infrastructure and amenities were built from scratch to meet their needs. Yet, the shortcomings of the social infrastructure, the nonexistent social security net, the difficult access to social services, and the scarcity of commodity



*Author*

supplies required that the SOEs handle all employee concerns, from food to housing, and from life to death. The SOEs set up canteens, nurseries, hospitals, schools, and even police offices and crematoria to facilitate all aspects of life for their employees.

Given their heavy social burdens under the planned economy, SOEs in China were more of a social rather than a business arm of the government. Balance sheets were of lesser importance because the government took all profits and offset all losses, thus allowing the SOEs to build up non-performing assets in order to serve their social welfare functions. By the 1990s, the liabilities of the SOEs had created approximately 20 million jobs, or one-fifth of the working population in China. The assets were worth 1 trillion yuan (equivalent to about USD120.50 billion<sup>1</sup>), nearly 40 percent of the net assets of the entire state sector (Liu, 1995).

Taking XiangTan Iron and Steel Group Limited Corporation (XTISCO) as an example, it is obvious that these social functions created a huge burden on the SOEs. With an annual output of 3.3 million tons of steel and RMB10.6 billion (equivalent to about USD1.28 billion) in gross revenue, in 2004 the company booked over 20 million yuan (equivalent to about USD2.41 million) for “operating costs” to provide educational subsidies; more than 30 million yuan (equivalent to about USD3.61 million) for an internal

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education system; more than 20 million yuan (equivalent to about USD2.41 million) for medical care; and more than 40 million yuan (equivalent to about USD4.82 million) for levies for municipal infrastructure. In total, such “social expenses” amounted to 200 million yuan (equivalent to about USD24.1 million).

Historically, the SOEs have been extremely slow to adjust to change. This is also the case with respect to ridding themselves of their social functions. In 2005 they were still operating more than 11,000 primary and high schools and at least 6,100 hospitals. Despite low profits, state firms were spending about 45.6 billion yuan (equivalent to about USD5.49 billion) annually on social services, irrelevant of their portfolios (Zhao, 2005).

Under the planned economy, these efforts compensated for a lack of supplies and benefited staff morale. But under free market competition they became too costly to maintain. This explains the overwhelming resentment to CSR in the state sector as China began revamping the social functions of its SOEs in the 1990s.

## **2. The TVE approach to social functions: Social ventures**

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As a result of the economic transition, SOEs slowly began to discontinue their social functions. At the same time, the development of socialist market economy witnessed the emergence of many township and private enterprises. As collectively owned enterprises, the TVEs represented a mixed form of ownership. They were created within rural communities, such as townships and villages, to be competitive but also to remain collectively owned. Their strong performance soon made them a new pillar of the rural economy, absorbing the surplus rural labourers. Despite their humble start, the TVEs grew to account for 56.47 percent of national industrial output in 1996 and 64.74 percent in 2005 (Fan, 2008). However, there were still many obstacles to their further development, one of which was the lack of provision of public services and facilities in the rural areas.

With their gradual build-up of wealth, beginning in the mid-1990s some TVEs, unlike the SOEs, began to use their own funds to invest in infrastructure and social amenities for their local communities. The TVEs not only operated schools for the children of their employees, offered cheap housing, and provided minimum wages, but also on occasion built roads, bridges, and even movie houses for their host villages, similar to some of the services provided by the SOEs in earlier years.

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One of the best known TVEs is the Hengdian Group in Zhejiang province of East China. Since 1993, the Hengdian Group has pumped nearly 2 billion yuan (equivalent to about USD240.96 million) into municipal infrastructure for the local community, including the building of dams, bridges, roads, stadiums, movie houses, swimming pools, and even gas reservoirs. It even established the first TVE-owned university in the country and the largest film studio in Asia.

This generation of TVEs is unique in that they invested abundant resources in public utilities and on the quality of life for the local population. By the end of the 1990s, almost all of the financially strong TVEs were involved in the building of the local infrastructure. Some TVEs even managed to turn their social undertakings into cash cows. The Hengdian Film Studio, for example, built on a desolate mountain slope has become a tourist attraction and a growth engine for the local economy.

It is puzzling that given the problems of the SOE sector in providing social functions, why did the TVEs voluntarily take on such social burdens? Our study finds that in many cases the TVEs were acting voluntarily and their efforts paid off. A comparison between the two types of enterprises in terms of the provision of social services reveals essential differences in their morals and

*Author*

their returns. It also illustrates how multinationals might deploy CSR strategies in China.

### **3. What makes the difference?**

Both SOEs and TVEs attempted to serve social functions. However, the TVEs were more successful than the SOEs. What accounts for this difference and why?

First, TVEs and SOEs differed in terms of their profit-seeking goals. As the social arm of the government under the centrally planned economy, the SOEs were not concerned about their profit margins. Their primary mission was to create employment and goods, regardless of the cost. This remained the case until the 1999 Fourth Plenary Session of the Fifteenth Central Committee of the Communist Party when it was decided that in order to save the state sector the SOEs would be relieved of their social functions.

But from their very beginning the primary goal of the TVEs was to reap profits. Mushrooming in the poor countryside, the TVEs soon found the local infrastructure to be a bottleneck to their growth. Therefore, after a certain period of development and capital accumulation, they began to reinvest their profits to upgrade local hospitals, schools, roads, supply of tap water, drainage, irrigation systems, biogas, local power grids, and so on. This

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created a win-win situation. The building of these facilities not only furthered their own growth but also benefitted the local communities.

Second, given their role in the provision of welfare, the SOEs had no choice but to assume their social roles to the extent that they were unable to compete in the free market. Under the planned economy, the SOEs functioned not as a legal person but as an administrative arm of the government. As an all-purpose unit of the society, the SOEs had to comply with this mandate since their employees and families expected the provision of social services regardless of the costs.

In contrast, the TVEs voluntarily took part in local development. They were business-savvy and free to invest as they wished. Over time, their efforts became both rewarding and sustainable. Not only did TVE efforts supplement the social welfare system, the provision of public goods also facilitated their own growth. They were free to invest as they liked to safeguard their own efficiency and sustainability.

The third difference between the two was the beneficiary. The social efforts of the SOEs only benefitted their staff and families. Under the planned economy the redistribution of wealth was not achieved by way of social welfare or a social security system but in

*Author*

the form of fringe employment benefits. An employee in the state sector had a life-time guarantee to a salary and a package of benefits, such as free housing, medical care, education, and a pension. Social security was financed by the company rather than the government. Among the few privileged state firms like Sinopec with a near-monopoly status in the market, provision of excess welfare benefits spoiled their staff, who naturally rebelled when the reforms required that they sign term contracts. In the vast majority of the state sector, however, there were massive layoffs and widespread bankruptcies.

With their grassroots background, the TVEs focused on the local community when they invested in infrastructure improvements. In most cases, together with the small towns and nearby areas where they operated, the TVEs boomed. For example, the Hengdian Group invested more than 2 billion yuan (equivalent to about USD240.96 million) in infrastructure to singlehandedly create facilities for the local population. More than 70 percent of the local labour force was employed in the group and the Hengdian Film Studio was a catalyst to the development of the local service sector. Paradoxically, the TVEs were contributing to the society to facilitate their own development, but they also

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provided even greater benefits than the SOEs through free-riding to the society at large

Apart from these differences, there was also a fundamental difference in the stakeholders and the allocation of resources between TVEs and SOEs. Before the enterprise reforms in 1993, due to property rights ambiguities the SOEs could not distinguish between rights and obligations as prescribed by their different stakeholders. As a result, they assumed unreasonable social duties and misallocated resources among the stakeholders. In effect, the SOEs were overly responsible to some stakeholders including their employees, the local community, and the local government (including the local shareholders), at the cost of the legitimate rights of other stakeholders, such as suppliers that risked payments in arrears and consumers who suffered from shoddy goods and services. Worse still, because of poor efficiency and lack of profits, the SOEs violated the fundamental interests of their principal stakeholders -- the government and their employees. In effect, the social commitments of the SOEs were doomed to failure because they undermined the long-term competitive advantages of the state firms.

In contrast, the stakeholders of the TVEs, which were independent economic entities, were clearly identified. The distinct



*Author*

division of the major stakeholders by management allowed for effective investments in social projects. When the balance between the benefits of the various stakeholders became a prerequisite for the TVEs' profit maximization, they had every reason to fulfil all aspects of their responsibilities, including their social responsibilities. When their businesses outgrew the local infrastructure, it was natural that they invest in upgrading. TVE corporate success allowed for local reinvestment and CSR initiatives that served their long-term strategies.

#### **IV. CSR strategy options for multinationals in China**

During the period of economic transition in China, on the one hand the majority of enterprises are expected to be released from their social functions and to decrease their social expenses.. On the other, the rise of the CSR movement requires that enterprises integrate their social responsibilities into corporate governance and internalize social costs arising from externalities. Although for many local firms both needs are compelling, they are also contradictory. The past bitter lessons suggest that CSR is nothing more than old wine in a new bottle. The perceived costs and burdens related to CSR results in many SOEs being adverse to any CSR initiatives.

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But in the case of the TVEs, there is a correspondence between the Western theoretical paradigm of strategic CSR and Eastern practice. The TVEs' successful investment in social infrastructure and services proves that social endeavours by business entities may also be beneficial social ventures and result in a business-society win-win relationship. Do well by doing good is possible if CSR strategies are applied appropriately. A comparison between the failure of the SOEs and the success of the TVEs in terms of implementing their social functions reveals the essence of CSR, and provides suggestions for how CSR strategies by MNCs might succeed in China.

The authors of this paper suggest that corporate social commitments are actually reflected and realized by how the various stakeholders are treated since the value creation process of a company is achieved based on the strength of the resources contributed by all the stakeholders. In essence, CSR represents a fair distribution of corporate profits among the stakeholders. In reality, corporate social performance is the result of a game among the stakeholders. The varying strengths of the different stakeholders explain why corporate social performance may be inconsistent and be reflected in an unfair distribution of corporate resources and profits among the stakeholders. Although the society

*Author*

expects that corporate resources be allocated fairly, enterprises are inclined to seek as many benefits as possible from the allocation of resources. Strategic CSR is a reciprocal method of social investment so that the distribution of corporate profits is both fair and optimal among all the stakeholders (Figure 2). Strategic CSR will consolidate efforts by the stakeholders in the hopes of long-term sustainable growth. This is how companies simultaneously defend their bottom lines and provide social functions.

Knowledge of cross-border CSR experiences and local Chinese CSR history is helpful to those MNCs mapping strategies to operate in China.

There are two features of CSR performance by MNCs in China. First, the special nature of their stakeholders. In a fair reflection of their stakeholder priorities, the SOEs and TVEs performed differently in terms of their social functions. Likewise, with a wider spread of stakeholders from different countries, the stakeholder portfolio of the MNCs is much more complex than that of either the SOEs or the TVEs (Figure 2). MNCs have investors and customers in the home country while they are also dealing with suppliers, customers, the local community, and environmental conservation efforts in the host country. As suggested above, the essence of CSR is the fair distribution of value among the stakeholders. With

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the cross-border nature of their stakeholders, MNCs find it extremely difficult to remain impartial in their redistribution of benefits among the stakeholders, hence the barometer of CSR performance tends to be distorted. Another feature of CSR performance among MNCs lies in the different CSR standards that MNCs face in the home country and the host country (Figure 2). In most cases, CSR standards are lower in the host country than in the home country since in most cases foreign direct investment (FDI) involves MNCs from a developed country investing in a less-developed country. Many MNCs have double standards in gauging their social performance, especially when they are promoting CSR along their supply chain under pressure from customers in the home country rather than out of any other altruistic motive.

These two features complicate CSR endeavours by MNCs. When operating in the specific CSR environment in China, MNCs have various CSR options. The following are some suggestions If they intend to integrate their CSR strategy to develop their social endeavours into social ventures.

Many MNCs have been found to lower the CSR bar in China. A pollution blacklist from the Institute of Public and Environmental Affairs in 2006 cited the China operations of 33 multinational companies, including five Fortune 500 companies. MNCs with

*Author*

double standards for CSR claimed that because of the shortcomings of local firms, they had to lower their CSR standards accordingly. The comparison between the SOEs and the TVEs regarding their social commitments reveals that Chinese companies are reluctant to undertake social roles due to their dismal prior experiences in funding excess social welfare projects. But this does not mean that CSR standards are inherently low in China. For the same reason, to some extent the Chinese public may tolerate the local firms' lukewarm take on CSR, but may not sympathize with the MNCs if they tend to copy and dodge their social responsibilities. It is dangerous for MNCs to take it for granted that they can safely follow the negative precedents of some Chinese companies and "race to the bottom" in terms of CSR.

The Chinese public expects that MNCs will provide more CSR. One reason for this is that after the economic transition, the SOEs left a huge CSR gap that had to be filled and it was appropriate that the MNCs take on this role since they are recognized as leaders in global CSR. Another reason for the success of the MNCs has much to do with their exploitative use of natural and labour resources in China. When their gains far outweigh their contributions, when customers must pay the price of CSR in exchange for their profits, and when CSR costs and pressures are

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to local Chinese factories by imposing standards like SA8000, any default in CSR on the part of a MNC may trigger public resentment against the company. Given the extremely subtle and thorny nature of corporate social responsibility in China, it is advisable that MNCs be cautious about their CSR performance and carry out CSR as a social venture with a broader and longer perspective than their own immediate short-term profits.

The study of the TVEs' successful management of their social efforts reveals that the key to the success of any CSR initiative is to refrain from distracting from the fundamental economic roles of the enterprise. CSR initiatives constitute part of any corporate strategy; therefore social projects should be developed into long-standing, self-containing social ventures. As independent economic entities, MNCs are free to choose whatever social projects in which they are interested so that their CSR strategies stand a better chance of success. But before the strategies can be considered successful, the MNCs need to tailor their CSR strategies to the needs of China. A cross-border CSR strategy without due respect for the contextual factors will be largely discounted on both financial and social terms. That is especially true in China as people's memories are still vivid about how the ill-fated SOEs provided social services and functions. A more recent example is the result of an online poll two weeks

*Author*

after the devastating earthquake that killed hundreds of thousands of people in Sichuan province in West China. The poll revealed that "the top misanthropic multinationals are the most selfish in terms of earthquake donations," (*Southern Weekend News*, 2008). Several big-name multinationals were condemned and boycotted by Chinese netizens for being slow to donate or for donating too little. These MNCs relied on the differences between Eastern and Western business ethics as an excuse, but these authors believe that MNCs must take the contextual elements into account as they chart their CSR strategies. It is true that these companies may have had their own reasons to delay donations, but such behaviour at critical moments will discount their contributions elsewhere. The ways MNCs adopt the challenge of CSR must reflect the particular circumstances in which they are operating. By understanding and accommodating the CSR situation specific to China, MNCs will not necessarily always adopt the most cost-effective strategy, but in the long term they will thus avoid a CSR crisis.

If the earthquake donation scandal reveals how an ill-considered CSR arrangement may mire an MNC in unexpected crises, the China arm of PepsiCo Inc. serves as a case in point to illustrate how MNCs can benefit from their CSR strategy. With the important decision that Chairman and CEO Indra Nooyi dubbed

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“Performance with a Purpose”, PepsiCo has undertaken a holistic approach toward its objective of making greater contributions to the sustainability of the society. The choices of social projects at PepsiCo are not arbitrary. They are well managed to leverage Pepsi expertise in community work – sanitation of local wells, repairing pumps, and replacing aging storage tanks. The Mother Water Cellars Project, a CSR effort initiated by PepsiCo in China to promote community access to water has been more effective than any TV commercial. An even more laudable social initiative by PepsiCo China is the operation of potato farms in the Inner Mongolian desert that has not only been profitable for Pepsi but also has provided a creative solution to local social problems. By building road and power transmission facilities for both the PepsiCo Farm and local farmers, planting vegetation for sand control, investing in water-saving pivot irrigators, adopting scientific crop rotation and cultivation methods to preserve the integrity of the soil, and allowing cash crops, PepsiCo’s social efforts greatly improved the local eco-environment and the livelihood of the indigenous population. PepsiCo’s investment to transform the desert manages to save approximately 250 million liters of water



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annually. Due to a local potato supply of 100,000 tons from the Inner Mongolian desert and other farms in China in 2008 alone, PepsiCo was able to reap huge savings by sourcing potatoes locally. Its scientifically based and economically sound CSR strategies successfully bind the benefits of all the stakeholders. In 2007 PepsiCo, together with two other multinationals, won an annual award for being “the most socially responsible multinational in China”. In the same year it was named “the most China-loving multinational” and given the “outstanding CSR contribution award”. Apart from all these honors, Pepsi has now emerged as the leading potato-chip producer in China. Strategic CSR tailored to the local situation is the main pillar of its success.

## **V. Conclusions**

Global endorsement of CSR requires that companies do well by doing good. The concept of stakeholders requires that all parties with a stake in the company need to be rewarded for its growth. As two sides of a coin, to do well and to do good are complementary instead of contradictory. Keeping the two in harmony creates a win-win situation for the long-run survival of the company and prosperity

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of the stakeholders. As a result, more and more companies are turning to CSR strategies for a competitive advantage.

Yet the economic transition and the massive failures of state-run firms have complicated the Chinese interpretation of CSR. With dismal memories of the ailing SOEs, Chinese enterprises are finding it difficult to identify their social roles, both fearing the possible costs and burdens associated with such responsibilities and being reluctant to become involved. However, the Chinese public is adjusting its expectations about the social roles of the business community, from their excessive reliance on business in the era of the planned economy, to the desperation amid massive layoffs during the across-the-board failures of the SOEs. With the emergence of the CSR movement, the public still needs to learn how to make moderate and reasonable claims on the social roles of enterprises. In China today, with the economic transition yet to be completed and the country still recovering from the former planned economy, there are many missing blocks in the social security net, Naturally, CSR is both subtle and thorny for companies both at home and abroad.

Although the state sector historically assumed social functions that undermined corporate efficiency, the choice of township and village enterprises to invest in local infrastructure both facilitated the

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growth of their business and contributed to the well-being of the local community. The voluntary social initiatives by the TVEs offer a new perspective on CSR in China. CSR can be either a social burden or even a disaster for enterprises, as in the case of the SOEs, or a social venture that brings competitive advantage, as in the case of the TVEs. The result is dependent on whether CSR is adopted as part of the corporate strategy.

The authors believe that in essence CSR represents a fair allocation of value to all the stakeholders. The shares of certain stakeholders cannot become excessive because then the CSR will impose burdens and thwart business success, as seen in the case of the Chinese SOEs. But CSR is underperforming when enterprises withhold the allocation of resources from any stakeholders. A win-win CSR strategy balances the benefits of all of the stakeholders and contributes to the sustained growth of the company. The examples of the experiences of the TVEs illustrate that maximum gains and optimal efficiency of their social projects are possible when social efforts are integrated into corporate strategies.

This analysis of CSR history in China and comparison of the social roles of SOEs and TVEs and have practical implications for MNC operations in China. Given that MNCs face stakeholders from

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different CSR environments and even countries with different CSR standards, the MNCs have many more variables to consider when devising their CSR strategies. Their success in China depends on a fine judgement of the local CSR situation. Even though for historical reasons local firms in China have not been CSR compliant, MNCs should not apply a double standard and allow this to continue. Public expectations are high for MNCs to hold up the bar as a long-term advocate on behalf of CSR and to be exemplary corporate citizens. MNCs are advised to take cultural and other CSR-sensitive issues into account. Support by the Chinese public regarding local CSR practices will boost MNC margins and their opportunities to develop social endeavours may be transformed into long-standing social ventures.

*Author*

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Notes:

1. The exchange rate of the RMB against the USD fluctuated slightly between 8.27 and 8.36 from 1996 to 2003. In this article, for the sake of convenience we use 8.30.

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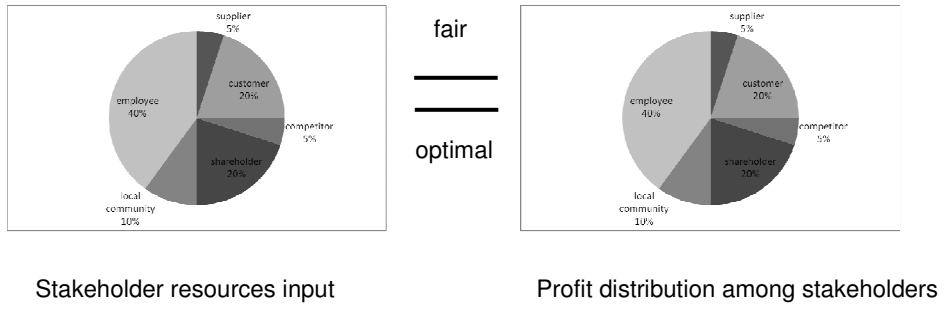


Figure 1 The essence of strategic CSR

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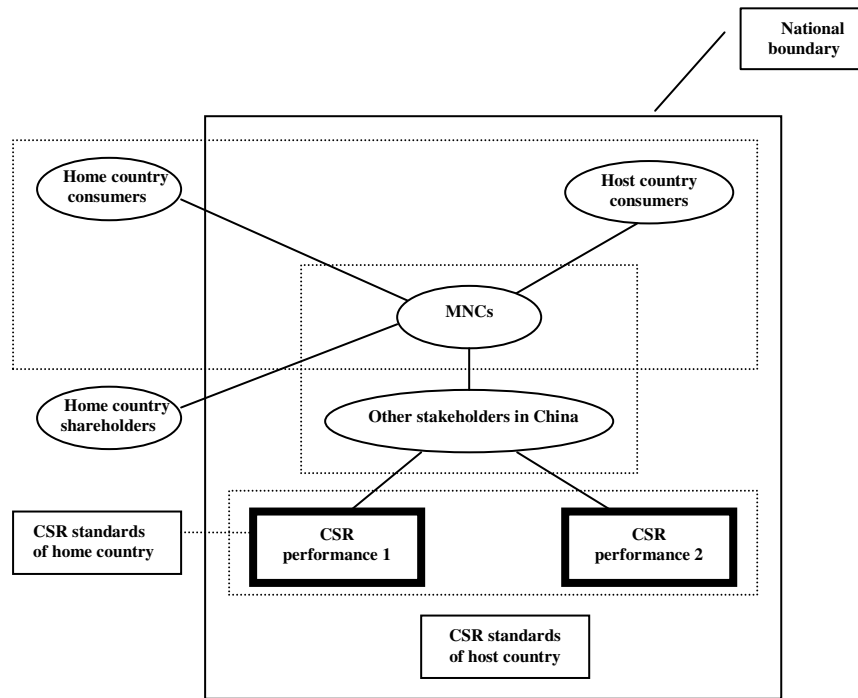


Figure 2 Stakeholder portfolio of MNCs