

# **New Circumstances, New Trends, New Challenges: How Should FIEs Better Fulfill CSR in China?**

**Written & Translated by Lu Bo**

Since China implemented the policy of opening to the outside world, foreign invested enterprises ("FIEs") brought advanced management and technology, as well as the concept of "corporate social responsibility (CSR)", into China.

2008 is a significant year for China. No matter the attack of ice storm in south China, the serious earthquake of Wenchuan, the historical success of Beijing Olympic, or the unexpected arrival of financial crisis, all left an enduring impact on Chinese people. FIEs not only witnessed all those events, but also participated in, performing their social responsibilities more widely and deeply than ever.

After three decades of development, especially the abnormal experience in 2008, FIEs are stepping into a new stage in respect of social responsibility, confronting a series of new circumstances, and manifesting new trends as well.

## **Challenges from Five Circumstances**

### **The increasing attention of Chinese government to CSR**

In recent years, Chinese government has greatly enhanced its capability of propelling CSR, which is reflected by their efforts to promote the concept of CSR and supervise the fulfillment of CSR. On Jan 4<sup>th</sup> 2008, the State Asset Supervision and Administration Commission issued "Guidelines on Performing Social Responsibility of Central Enterprises", requiring central enterprises to play a leading role in the performance of social responsibility. On Sept 9<sup>th</sup> 2008, Ministry of Commerce issued "Draft Guidelines on Performing Social Responsibility of FIEs", setting the lowest standard of performing social responsibility in China for FIEs, which included 26 Chinese laws and regulations, as well as 19 international conventions. This document encouraged FIEs who lack of social responsibility to improve their behavior.

In November of 2008, Chinese President Hu Jintao delivered a speech entitled "Insisting Opening-up and Cooperation, Seeking for Mutual Benefit and Win-Win" at the APEC Summit in Peru. He pointed out that while enterprises are pursuing profit, they should take serious account of the whole economy with responsible attitude, and cope with all kinds of dangers, preventing their own behavior from doing harm to the development of economy and people's livelihood. This was the first time a Chinese top leader talked about CSR in public, which attracted worldwide attention.

Beyond that, all kinds of conferences, forums and prize awarding activities related to CSR were being held. These activities, on the other side, reflect the attention and resolution of Chinese government to promote the development of CSR.

Under such a social background, performance of social responsibility of FIEs in China is no longer seeking for instant success, but is oriented and ruled by a supervised system.

### **The influence of economic crisis**

The financial crisis caused by subprime mortgage loan continued to have a bad aftermath on real economy. The global economy recession is an irresistible trend. This abrupt financial crisis reduces the profit of many multinationals, and even leaves them strained in financial difficulties. Some corporations who have more than one hundred year history recently announced bankruptcy, which devastates the confidence of other enterprises. Under such a circumstance, should corporations proceed with their social responsibilities? And how should they enact their CSR programs? Those are critical problems to them.

Doug Devos, CEO of Amway Corporation, observed that social responsibility should be integrated into the management philosophy of any corporation, instead just being a single strategy. Otherwise, once hit by financial difficulty, the corporation will easily abandon its social responsibilities.

After the financial crisis, Katherine Tsang, CEO of Standard Chartered Bank in China, clearly expressed that the company would not cut down the proposed CSR projects, instead, it will be increased, especially in the period of economic fluctuations.

In this sense, as for multinationals, economic crisis examines not only their resolution of performing social responsibility, but also their management capabilities in this respect. As to those mature corporations, social responsibility is a belief, which will not easily affected by economic downturn. During the period of economic crisis, enterprises, especially multinationals should cope with the crisis with local government and society in order to cultivate prosperity afterwards.

It is worth mentioning that the outbreak of economic crisis was actually attributable to a lack of supervision. In another word, the current economic crisis is closely connected with some irresponsible corporations who pursue profits regardless of the development of the whole society. If enterprises pursue interests blindly without performing basic social responsibility, what disaster will they bring to the whole world as well as to themselves?

### **The rise of local enterprises**

In recent years, Chinese local enterprises have made a significant progress in CSR performance. Taking Chinese Petroleum Corp, State Power Grid Corporation and COSCO Group as examples, these large state-owned enterprises have all made prominent

achievements in energy conservation, green office, clean energy, community development, human resource cultivation as well as international communication and cooperation. Meanwhile, the establishment of some private enterprise foundations, such as Narada Foundation and Vantone Foundation, marks the fact that China's private enterprises started to regulate and normalize their CSR performance.

According to the statistics, more than 120 Chinese enterprises issued their reports of CSR or sustainable development in 2008. It broke the record at an amazing speed.

Overall, in terms of specialty and initiative, the gap between China's local enterprises and FIEs is narrowing. At the same time, China's local enterprises also appear their own characters and advantages. At the next stage, how should FIEs deal with the rise of their local rivals? Will they remain leaders in this field? People would like to wait and see.

### **High expectation from the public**

For a long time, with tendentious propaganda for the multinationals, FIEs enjoy high aspiration of China's public, which lead to a high expectation from the local people. For example, after the Wenchuan earthquake, some famous multinationals were listed on a black list—the public thought their donations were either too stingy, or too impromptu. During that time, the senior managements of FIEs are deeply embarrassed and helpless due to the stern attitude of China's public.

From a rational perspective of the incident, it is unreasonable to judge an enterprise's CSR performance only by its donation amount at one time. On one hand, this incident reflects that Chinese people didn't have a thorough understanding of CSR; on the other hand, it also revealed that they had an over estimated expectation for FIEs.

No matter the expectation is impractical or not, it is a solid sound from the public which reflects their real feeling. Any FIE who wants to further develop its business in China will have to take serious account of public feeling, by which it can also improve its cross-cultural communication skill.

### **Crisis of confidence caused by scandals**

Recently, in China, the quantity of negative reports on FIEs has been increased. Those reports include some long unsolved problems, such as environment pollution, employment disputes and technological secrets. In addition, some new problems have been exposed rapidly, such as products quality and safety, commercial corruption, profit transference, etc. All those reports have bad effect on the reputation of FIEs. After the breakout of economic crisis, the illegal withdrawals of some FIEs in Guangdong and Shandong provinces lead to serious social problems in local societies. What is worse, these withdrawals, to some extent, provoke crisis of confidence among China's public.

Although the above mentioned incidents are only due to a few corporations' behavior, they have terribly damaged the entire image and reputation of FIEs as a whole, which drives other FIEs under great pressure of the public. Under such circumstance, the public will regard their good behavior as a show or even a kind of atonement. How to solve this problem is a challenge for FIEs in China. Meanwhile, it forces FIEs to perform much better in the fields of CSR.

## **Direction Pointed out by Five New Trends**

### **Diversity of contents and forms**

The term of "corporate social responsibility (CSR)" was first put forward by an American named Shelton in 1924. He believed that when enterprises pursued profit they should take employees, consumers, debtors, communities, environment, disadvantaged groups and the whole society's interest into account. After 80 years of practice, the concept has been changed a lot. Nowadays, CSR is not simply equivalence to charitable activities. However, it requires enterprises to pay greater efforts on products safety, environment protection, resource-saving, business integrity, community responsibility, information disclosure, etc.

CSR activities can directly be related to a corporation's own products. For example, The Coca-cola Company's policy to prohibit selling carbonated or high caloric drink to children under 12 years has been carried out for half century. In 2008, the company enlarged the coverage of the policy. That is, in the field of traditional advertising, all marketing information will no longer have children under the age of 12 as a direct target, so that parents or guardians can fairly choose drinks for their children with proper information.

Besides, CSR activities also can be required to accord with a corporation's goal of CSR. Take the 3M Co. for instance, in 2008, their activities include protection of equus przewalskyi, an innovation forum of college students, protection of forests, conservation of freshwater, a summer concert promoting zero carbon emissions, and Green Office Program, which cover a wide range of various issues.

### **Suiting methods to local conditions**

Characteristics of CSR closely relates to the region where the corporation is located. Under different culture background, CSR has different meanings and reference systems. The contents and standards of CSR closely associate with different stages of economic development, historical tradition and cultural characteristic of countries. Based on their research, Xu Shangkun and Yang Rudai, two Chinese scholars, came to a conclusion that Chinese enterprises and western enterprises have a lot in common while they keep their own differences in terms of CSR. What they have in common are economy responsibility, legal liability, people orientation and public welfare. However, Chinese enterprises put forward concepts of employment providing, business ethics, social stability and development while it ignores some extremely important concepts in western countries,

such as the shareholders' rights and equality. Besides, CSR in China is characterized by traditional culture and economic transformation era.

AstraZeneca, a global drug giant, has a clear understanding of those differences. After the Wenchuan earthquake, Chinese employees suggested wiring donation to the Ministry of Civil Affairs (MCA) account while the London headquarters thought that the donation are definitely not allowed to contribute the government. However, in China, all rescue resources should be allocated by Chinese government or Government Owned Non-Governmental Organizations (GONGOs). After several days delay, the company was in deep water and even appeared on the black list. Later, Wu Huanling, a Vice President of AstraZeneca China, solved this problem wisely. She explained to the headquarters that the MCA is "the father of all charities in China". Then London headquarters agreed to contribute 6 million RMB to the China Charity Federation. The first day after the earthquake, it donated USD 2,500 to the Red Cross Society of China through China Association of Enterprises with Foreign Investment. And the 1.13 million RMB donation from employees was sent to the MCA.

In western countries, if a company announces its donation amount after a disaster, it will be regarded as a kind of speculation to seek profit. As a tradition, donations are only disclosed in the CSR Annual Report. In May 2008, the headquarters of Tetra Park donated USD 30 million in total. According to their initial plan, half of the donation would be used for Cyclone disaster in Myanmar, the other would be used for earthquake relief in Wenchuan, China. Tetra Park didn't announce their donation to the public of Myanmar. However, considering the particular situation of public opinion in China, Tetra Park eventually announced their donation in China. For the sake of reality, since late May in 2008, the US-China Business Council began to register its member company's donation amounts, and then send it to the Ministry of Foreign Affairs, Ministry of Commerce and media in China. What is more, it updated the latest progress at the home page of its official website.

### **Less short-term targets, more long-term behavior**

Three decades since reforming and opening-up, China's social stability, market prosperity and rapid development of economy, all lead to an increase of confidence of foreign investors. Lots of world-known large companies have prepared for long-term development. Accordingly, they are willing to perform long-term behavior when coming to CSR, rather than short-term success, and grow together with the Chinese society. For instance, Motorola Inc put forward an inspiring slogan, at the very beginning of its market entry, "to be a good citizen of China".

In June 2007, Coca-Cola China made a long-term promise that they will return fresh water to the nature as much as they consumed in the process of production in a safe way. The company would fulfill its promise by the following three methods: reducing water assumption, recycling water in the process of production, replenishing community and

nature with fresh water.

The coffee farm of Nestle China in Yunnan province, is another good example. In 1989, the company signed a 14-year contract with local government, in which it promised to buy coffee at the price on spot in the US. For local farmers' interest, it only set the lowest purchasing price, without capping the highest price. Meanwhile, it provided local farmer with technician, germchit, even farm tools loan for free. Additionally, they promised to give up the ownerships of land and permanent assets.

All these behavior are closely integrated with FIEs' social responsibility and specialty, as well as the business development and interests of Chinese people.

### **Cooperation with local professional institutions**

No enterprise can perfectly fulfill CSR on its own. FIEs need the support of professional institutions, especially local professional institutions whose wisdom, network and professional knowledge can be great help. Considering cost, efficiency, effect and influence, more and more FIEs tend to cooperate with local institutions in the field of CSR, making full use of advantages and resources of both sides.

PepsiCo Investment (China) Ltd. and the Red Cross Society of China, joined hands to launch a nationwide long-term program named "Tomorrow of Pepsi" assisting children of migrant workers to study. AstraZeneca China launched a national nose-caring health education program, together with the Affiliated Ophthalmology and Otolaryngology Hospital of Fudan University. Coca-cola China cooperated with the World Wildlife Fund (WFF) to launch a program to protect the freshwater ecosystems of Yangtze River. All those activities have achieved significant positive outcome.

### **China's becoming global focus and good example**

In the past, multinationals in China used to adopt the existing systems of CSR in their original countries, were satisfied with offering local statistics to their global annual CSR reports. With the rapid increase in market share and development potential, some multinationals began to choose China as a global focus and good example for CSR performance. This is a welcome change indeed.

On Oct. 11<sup>th</sup>, 2008, Amway Corporation delivered its first CSR report and chose Beijing as the launching city. The reason for such a special arrangement was that Amway China played a leading role in CSR performance among all branches worldwide. It is reported that, since Amway first came to China in 1995, the company and other branches in China allotted funds each year for CSR programs. By June 2008, they had totally contributed 0.25 billion RMB and carried out over 4,100 programs. Therefore, the headquarters hoped all branches in the rest of world could learn from Amway China.

All in all, in terms of CSR fulfillment, FIEs in China should be alert to changes of situation and integrate parent companies' traditions, advantages and resources with concrete conditions of China. On this basis, they should pursue innovation and breakthrough of their work so as to achieve a sustainable development for Chinese market. At the same time, China, from the government to its people, needs to put more efforts to improve policy environment, media atmosphere and the standard of professional services, besides being perseverant in opening up and keeping rapid development.

Based on joint efforts, I'd like to predict that FIEs in China are bound to make new achievements in respect of CSR. Meanwhile, more typical cases occurred in China will be eventually recorded in the history of multinationals' CSR development.

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