

Contemporary Corporate Social Responsibility (CSR) in China: A Case Study of a Chinese Compliant

Biyan Tang*

Abstract: Corporate social responsibility (CSR) has become prominent in Chinese political, academic, and economics forums as China's economy has grown more integrated into the worldwide economic market and Chinese citizens have become more aware of the need for socially responsible business practices. Unlike CSR in western countries, however, in China CSR is primarily a government-guided activity rather than a private sector initiative, and CSR implementation is more prominent in state-owned enterprises (SOE). This article aims to provide the reason for the imbalance between CSR implementation in SOEs and private companies. Part I gives a brief general introduction to CSR; part II analyzes recent CSR development in China and its characteristics; and part III is an interview with Mr. Li Weiyang, CSR director at a leading Chinese SOE, regarding his experiences with advocacy and complaints.

Keywords: Corporate Social Responsibility (CSR), State-Owned Enterprises (SOE), China

I. Introduction to CSR

A. Definition and Standards

Corporate social responsibility (CSR) is corporate self-regulation by which companies integrate social, environmental, and economic concerns into their values and operations in a transparent and accountable manner. CSR allows an organization to take responsibility for the impact of its decisions and activities on society, the natural environment, and its own future profitability. The United Nations has called this triad of concerns the triple bottom line: people, planet, and profit. CSR functions as a tool for corporations to monitor and ensure active compliance with the law, ethical standards, and international standards. CSR

* Biyan Tang is a 2015 Economics Ph.D candidate at the University of Kansas, who is interested in macroeconomics and development economics. Biyan received her M.A. and B.A. at Central University for Nationalities in Beijing, China.

programs implemented by many companies aim to embrace responsibility for the company's actions and encourage a positive impact on the environment, consumers, employees, communities, shareholders, and other members of the public who may also be considered stakeholders.

There are several prevalent international CSR standards. Development business ethics is one form of applied ethics that examines ethical principles and problems that can arise in a business environment. ISO26000 is the recognized international standard for CSR. Public sector organizations (the United Nations, for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

B. CSR Practices

Corporations implement social responsibility practices for a variety of purposes by utilizing diverse methods. CSR measures include providing reliable, eco-friendly, safe products; designing labor protection measures and welfare plans; engaging in corporate philanthropy and community development projects; publishing corporate social and environmental performance disclosures (often through CSR reports); and promoting CSR concepts within society.

Philanthropy and charitable activities are common CSR approaches. These activities often include monetary donations and various aids (food, medical, educational, etc.) for local organizations and impoverished communities in many countries. For example, following the 2008 Sichuan Earthquake in southwest China, corporations in China and abroad donated large amounts of money for repair and recovery efforts. Critics assert that this approach doesn't build local skills; instead they advocate community-based development, which is more sustainable.

Beyond direct charitable donations, many corporations establish CSR guidelines, which they incorporate into their general business strategies. The China Huadian Corporation, for example, has incorporated specific CSR goals into its general business strategy, including a requirement to supply safe, clean electricity and achieve sustainable development for the company, the environment, and society.

Another practice becoming prominent in CSR circles involves creating greater joint value in cooperation with communities, which is called Creating Shared Value (CSV). A corporation needs a healthy, educated workforce, sustainable resources, and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for citizens. Based on

the concept of CSV, the State Grid Corporation of China not only provides safe and reliable electricity but also educates society and its employees about CSR. State Grid Corporation of China has become a CSR pioneer by innovating these practices in China.

II. Current CSR Situation in China

A. CSR Development in China and its Characteristics

CSR activities in China involve greater government involvement than similar initiatives in western countries, where CSR strategies are driven mostly by private sector or non-government organizations. In China, state-owned corporations usually have the more comprehensive CSR programs. Chinese CSR initiatives include laws and regulations, governmental instructions and guidelines, non-governmental standards and organizations¹.

Since 2004, CSR has become a prominent issue in Chinese academic and policy forums. Numerous public and private CSR initiatives have emerged in China, and studies show that Chinese firms are increasingly implementing CSR practices and reporting. Between 2004 and 2008, the number of CSR reports released by Chinese companies increased from four to approximately 130².

With the 2008 introduction of the Labor Contract Law and the development of the Taida Environmental Index in the Shenzhen Stock Exchange, a variety of institutional frameworks that encourage more “socially responsible” activities amongst Chinese companies are beginning to emerge.

The most important development regarding CSR in China is likely the State Council’s recent State Owned Asset Supervision and Administration Commission (SASAC) initiative. On Dec. 29, 2007³, SASAC, the majority shareholder and ultimate owner of many of China’s largest business groups, issued the Notification on Issuance of the Guidelines on Fulfilling Social Responsibility by Central Enterprises (SASAC 2008), which required SOEs to comply with SASAC 2008. The State Council publicly demonstrated its support for CSR by enacting and disseminating the 2008 SASAC law. The notification is a strong indication that CSR is being widely and politically authorized and that companies should implement their own such measures.

¹ Li-Wen Lin (2010). Corporate Social Responsibility in China: Window Dressing or Structural Change? Berkeley Journal of International Law. Vol. 28:1, 64-100

² Dylan Sutherland and Glen Whelan(2009), Corporate Social Responsibility in China’s Largest TNCs Discussion Paper 51, The University of Nottingham, China Policy Institute.

³ Public Relations Department State Grid Corporation of China (2012), SGCC 2011 Corporation Social Responsibility.

Both global and domestic forces stimulate CSR adoption. Regarding global force, the deep, fast integration of China into the global economic system and its prominent position as a manufacturing hub in global supply chains has led to stakeholder calls by NGOs, consumers, and governments to enhance responsibility, a trend reinforced by China's entry to the World Trade Organization. International customers increasingly require suppliers to undergo CSR audits, so the Chinese government has introduced regulations to strengthen corporate commitment to CSR, including the Labor Contract Law and the Central Government Guidelines on Social Responsibility Implementation for State-Owned Enterprises.

Domestic drivers for CSR have also become more explicit in recent years, and societal expectations regarding CSR have become more prominent. The Chinese government in particular, plays an important role in guiding CSR discourse domestically. A powerful example comes from Article 5 of the 2006 Chinese Company Law, which requires companies, "undertake social responsibility" in the course of business. Another important state-led measure is the promulgation of the CSR principles for Chinese central-government-controlled companies to follow. Some private initiatives are growing as well, such as the Responsible Supply Chain Association's CSC9000T and the Chinese industrial associations' joint declaration of the Chinese CSR Industrial Principles. Due to international and domestic forces, CSR has become increasingly prominent in China's academic, economic and political forums.

III. Interview with State Grid Corporation of China (SGCC)

Below is a summary of an interview with Mr. Li Weiyang, Division Director of the Department of Public Relations at State Grid Corporation of China. Mr. Li directs CSR report publishing and dissemination and has spent 10 years representing the company's policies. Mr. Li also is part time Deputy Director of the CSR Research Center at the Chinese Academy of Social Sciences and Director of the United Nations "Global Compact" Chinese Network Center.

State Grid Corporation of China (SGCC) was the first State-Owned Enterprise (SOE) in China to produce an independent CSR report in 2005, and it has played a leading role in promoting CSR in Mainland China. The interview is translated from Chinese and presented in an abridged question-and-answer format:

Q: What were the macroeconomic and social environments like when State Grid Corporation of China began its CSR reporting?

SGCC started its first CSR report in 2004, and it was the first Chinese company reporting CSR in Mainland China.

First, there was and still exists a substantial gap between the amount of social recognition SGCC receives for being a positive force in society and SGCC's contributions to society and its socially responsible activities. Because of this gap, SGCC has not gained social recognition proportionate with its contributions to the public good, which dampens the SGCC's passion for continuously contributing to the broader society. In order to narrow this gap, SGCC considers CSR as an effective tool to communicate with its customers and society. In this sense, CSR functions as a stage for SGCC to communicate and solve the gap problem.

The second reason for SGCC to publish CSR reports is the global CSR initiative influence. Recently, sustainable development became a norm for multinational corporations from a society and customers perspective. In 2002, the first Global Responsibility Impact was reported, and customers required companies to report more than financial balance sheets, in other words, they requested CSR reports from these corporations. With this global trend, SGCC started its CSR reporting in 2004.

Some CSR concepts lead SGCC to contemplate the social role corporations should play in society. For example, SGCC's 2005, 2006 CSR reports mainly focus on the social role of the company and its social responsibilities. In the past, SGCC's social role or social responsibilities was not complete or systematic. Based on the relationship between corporation and society, combining the social contribution and value creation, SGCC systematically determined its social role and utilizes CSR as a tool to communicate with the customers and society.

Q: What CSR standards does SGCC utilize?

SGCC adopts multiple CSR standards, including Global Reporting Initiatives (GRI) and United Nation Global Compact (UNGC). SGCC analyzed the internal concepts and principles of these standards and built its own value creation CSR guidelines, the "Guidelines for State Grid Corporation of China Compliance with Social Responsibility." The ultimate goals are making contributions to social welfare, increasing the transparency of transactions, improving the efficiency of management systems, and developing a sustainable project implementation path.

Q: What are the motivations behind the SGCC's CSR initiatives?

SGCC is motivated to comply with CSR goals for both internal and external reasons. First, CSR helps SGCC narrow the gap between social recognition of its contributions to the society and SGCC's own recognition of these activities. CSR is an effective tool for communicating with customers. Since 2004, SGCC has adopted CSR programs as a way to enhance communication with the public. CSR programs help corporations meet the need for innovation. CSR helps SGCC to update employees' outlooks and company systems, to broaden its business scope, to improve management skills, and to solve some technology problems. Implementing, reporting, and publishing CSR policies and reports is a vehicle for SGCC employees to become more aware of the impact companies have on society. Meanwhile, CSR-related activities give employees a higher sense of pride in their work and encourage them to continue to make more contributions to society. Most importantly, CSR helps SGCC, a leading corporation in terms of efficiency, technology and CSR implementation, establish a moral and responsible image to become the true leader in terms of CSR engagement and implementation. SGCC's CSR initiatives propelled China's central government's CSR standards for SOE corporations and helped society to promote CSR initiatives and their development in China.

The external forces or pressures pushing SGCC's CSR program can be divided into three specific primary categories. The first element is the global CSR influence. With China's deep integration into the world economic system, the world supply or consumption chain requires modern corporations or companies to comply with CSR guidelines and disclose a second report beyond the financial balance report; in other words, the CSR report. China's societal expectation pushes SGCC to engage in CSR activities. Furthermore, as a leading SOE in electricity distribution corporations, SGCC takes the Chinese central government's guidelines on advocacy very seriously. Specifically, State-owned Assets Supervision & Administration Commission (SASAC) published the 2008 No. 1 article about CSR requirements for the State-Owned-Enterprises in Mainland China. SASAC promotes CSR among Chinese companies actively and encourages them to help each other participate in CSR initiatives. All these external forces encourage Chinese companies to engage in CSR initiatives and to regulate their transactions based on the CSR concept. With CSR reports, society or customers have some standards to supervise these companies' activities, increasing their transparency and efficiency.

Q: What have the benefits of CSR to SGCC been since the first CSR report was published in 2005?

CSR initiatives or activities have been meaningful and helpful to SGCC in many ways. Most significantly, CSR has helped SGCC to narrow the gap between social recognition and the corporation's recognition of its own contribution to society. CSR initiatives also have helped to improve SGCC employees' social responsibility awareness, broadened their scope and assisted SGCC build an environmentally friendly and responsible company. CSR helped SGCC to establish a good image among customers and society and improved SGCC's value creation ability. These CSR activities helped SGCC build a more transparent corporation and provide customers and society the opportunity to supervise the company's transactions. In summary, because of the implementation of CSR policies and concepts, SGCC's management skills, scope, content, format, and whole management system have been improved. Indeed, CSR initiatives have been a blessing to SGCC, its customers, and the society it services.

Q: How effective are CSR reports at narrowing the gap between social recognition and corporate recognition of SGCC'S contribution to society? What are the constraints for narrowing the gap, and which areas are inadequate?

CSR reports and activities are very effective and efficient in narrowing the gap between social and SGCC's own recognition of its contribution to society. With society's supervision and government guidance, the asymmetric information has been reduced to a large extent. However, due to the limitation of words of CSR reports, the gap has been not completely narrowed.

Society, customers, and the company are concerned about different issues or problems. For example, the customers care about the price and are very sensitive to the price of the electricity that they are consuming. For SGCC, the price of electricity is determined by the Development and Reform Commission of China; SGCC, therefore, cares much less about the price since SGCC is not the price-setter. Because of the difference in concerns between the customer and the corporation itself, there are some inadequate actions or activities in CSR practices or even in CSR reporting.

Q: What are the CSR approaches that SGCC has been taking?

In total, there are 12 different CSR program elements that SGCC practices and reports. For the details, check out the SGCC's CSR reports on our website, SGCC.com.cn;⁴ the English version is also available by request. In general, these 12 detailed aspects can be summarized as:

- Practice its core social functions, *i.e.*, providing a cleaner, safer and reliable product and effectively distributing electricity and developing sustainably.
- Operate the business reliably and responsibly, treat every stakeholder adequately, and stay responsible to people (customers, suppliers, stakeholders), and behave responsibly toward the environment and society.
- SGCC should keep transactions transparent and be willing to accept the supervision of society, customers, and the central government to guarantee the social function is fulfilled, *i.e.*, providing safe, clean, and reliable electricity to customers.

Q: What kind of corporations or companies participate in CSR more actively in Mainland China, and why?

Compared to private enterprises, state-owned enterprises are better and faster at CSR compliance; moreover, SOEs have developed more detailed and systematic CSR policies.

SOEs have better management systems and skills. Compared to private enterprises, SOEs are all more or less dealing with essential industries, like energy (electricity, oil, gasoline, or related products), transportation, telecommunication, and banking. Therefore, these SOEs have stronger financial backing and support. SOEs have an easier time obtaining financial services or bank funding and developing advanced technology. Meanwhile, SOEs have better or more efficient broadcasting channels or communications media or stronger public relations departments. These communications tools and expertise help state-owned corporations to develop novel concepts like CSR, educate their employees, and then disseminate the ideas through mass media channels, which contribute to the faster and better implementation of CSR guidelines, report writing, and publishing.

⁴http://www.sgcc.com.cn/sgcc_csr/default.shtml

Q: As the director of SGCC's public relations department, one of the leading CSR compliant and advocates within China, what are your suggestions for private companies to better implement and integrate CSR into their business and transactions?

First, I suggest these private companies do well in their respective industries and systematically manage their companies. To achieve this goal, they should establish some related rules with other parties in industry to operate in a more socially responsible way. Private companies should study and understand the laws and rules imposed on them and use these laws and rules to regulate their behavior to serve their customers and society better.

Second, I suggest private companies should welcome and invite oversight from government, society, customers, and other stakeholders. Furthermore, these private corporations should share their knowledge on CSR implementation and other useful skills on management or business and have a clear understanding of the effects of their business on society and the environment. For example, the companies in the same industry can form an association. By attending meetings organized by the association, corporations can discuss industry trends and advanced technology and management skills, CSR policies, or even be good examples and supervise each other. Private corporations need help from the associations, government, and society. Only if society and companies work together is sustainable development achievable.

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