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# Managing corporate social responsibility in China<sup>☆,☆☆</sup>



Xiaowen Tian, John W. Slocum

The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community. ...Companies must take the lead in bringing business and society back together.

— Michael. E. Porter & Mark. R. Kramer

## THE SOCIAL RESPONSIBILITY CHALLENGE

Companies from Coco Cola to Apple to Wal-Mart and GE have come under pressure from concerned stakeholders to improve their overall concern for the environment. These stakeholders are demanding that global corporations develop policies that improve their community impact in all operations. Many global corporations have traditionally strived for profit maximization as the sole goal to compete with rivals. At times, this was achieved at the expense of the society and environment. In the early 1990s, Shell sank an obsolete oil rig, its 14,500 ton Brent Spar, in the North Sea to save money. Greenpeace took action against Shell stating that the ocean is not a dumping ground. Spontaneous protest in support of Greenpeace broke out across Europe and some Shell stations reported a 50% loss of sales. Nike, Adidas, Prada, Timberland, among others, allegedly profited from abusive and low-cost labor practices of its Asian suppliers. It is believed that Tian Fulei died recently at Pegatron's factory, a major supplier of Apple, in Shanghai from

overwork. These events triggered protests from green campaigners and social activists. Corporate social responsibility (CSR) has since become a focal topic of discussion in social media, academic publications, and corporate boardrooms. Apple, Caterpillar, Louis Vuitton, Jordan and other global corporations are under increasing pressure from the international, national, and local communities to take responsibility to address such problems as gas emission, water pollution, long working hours, work safety, and low wages. CSR has become a daunting challenge to global corporations, especially those that have operations in China. We analyze several strategic options for global corporations to deal with the challenge in China. First, we review the major CSR issues they face in China. Second, we explain the shift from an ethical to a strategic approach to CSR. Third, we discuss three approaches to addressing CSR issues in China.

## MAJOR CSR ISSUES IN CHINA

Challenging CSR issues have become acute in China because of the weak regulatory framework against unethical business behavior and the lack of socially responsible business practices in China. These CSR issues may be grouped into three major categories.

### Environmental Pollution

In China, the environmental regulations on emission of pollutants, the dumping of toxic chemicals, and the use of toxic materials in the workplace are weak as compared to those in advanced countries. As a result, global corporations tended to move polluting parts of their value chain from home countries to China. Pollution has become a serious problem in China. Incidents of water pollution, food pollution, and the use of toxic materials in workplace are reported daily.

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*E-mail address:* [x.tian@murdoch.edu.au](mailto:x.tian@murdoch.edu.au).

Importantly, China is notorious for air pollution, with dust storms frequenting many parts of China several times a year. Chinese firms are admittedly a major source of environmental pollution, but global corporations also contribute to the problem.

According to a report by Greenpeace, 18 companies were found to fail to report what pollutants they were releasing into China's air and water. This violated Chinese basic pollution law. This law took effect in 2008, and required companies to reveal details of pollution to the public. These companies included such leading global corporations as Royal Dutch Shell, Samsung, Nestlé, LG, Kraft, Motorola, Denso, and Bridgestone. According to a report issued by Chinese environmental groups, Nokia, LG, SingTel, Ericsson and Apple were among the poorest performers in polluting the environment. In particular, Apple was rated the worst global corporation polluter in China. In 2013, Apple's two top suppliers, Foxconn and UniMicron, were alleged to pumping toxic heavy metals into nearby river in Southern China. Environmental pollution is so severe in China that some large global corporations, such as Coca Cola and Panasonic, have started to provide 'pollution hazard pay' to expats working in China. This is a kind of financial subsidy for breathing the polluted air in the country!

## Human Rights

Human rights cover a wide range of issues. The most problematic issues include (1) basic human rights, such as freedom of association, freedom of speech, freedom of assembly, freedom of information access, and freedom from political repression; (2) specific labor rights related to working age, working hours, working conditions, and worker payment; and (3) the rights of the poor for social services. Unlike environmental pollution issues where the right and the wrong are reasonably clear, human rights issues are often controversial due to lack of universally accepted norms, standards and practices.

Google was established with a clear mission in mind: *to make the world's information universally acceptable and useful*. This mission was challenged in 2006 when it rolled out its Chinese home page. Its home page was hosted on servers based in China and maintained by Chinese employees in Beijing and Shanghai. The Chinese regulators requested Google to engage in self-censorship, excluding search results on such politically sensitive topics as democratic reform, Taiwanese independence, the banned Falun Gong movement, and the Tiananmen Square massacre of 1989. Human rights activists quickly protested, arguing that Google abandoned its mission by following Chinese regulations. The U.S. Congress requested Google to respond to the allegations. Under mounting pressures, Google moved its China operation from mainland China to Hong Kong in 2010. Google's decision to terminate search-engine operations in mainland China reflected the sharp conflicts between China and the West on basic human rights.

Respect for labor rights in China is inferior to that in advanced countries. Global corporations have a responsibility to improve labor rights while operating in China and other Asian countries. Some global corporations were found engaging in practices that violate labor rights to cut operational costs. The most notorious case was Foxconn, a Taiwan-based global corporation. It employed more than 1 million workers

in China and served as a main supplier for Apple. Foxconn was accused of keeping their employees in overcrowded dormitories run by military-like security forces. Employees worked excessive long hours (about 60 h a week), often with no compensation for overtime. Management controlled every aspect of worker's lives, interfering with their privacy. A number of workers committed suicide by jumping out of their dormitory window. In 2010 alone, 18 workers attempted suicide. Under mounting public pressures, Foxconn has reportedly taken steps to improve working conditions in its Chinese production plants but worker strikes at plants are common. Similarly, Reebok, Nike, Brother Group and other global corporations have made efforts to improve working conditions in China.

The issue of the rights of the poor is often neglected by global corporations. China has experienced a widening of economic disparities in the process of integration with the global markets. Global corporations were said to have contributed to the widening gap by locating their investment projects in locations where rich Chinese live, such as the east coastal provinces, to tap the consumption power of the rich. Although China has significantly reduced the number of people below the poverty line, there are still millions of poor people living in backward western provinces. These people are at the bottom of the pyramid. The poor people should enjoy the rights to access basic material and cultural needs. The key to meeting the need is to create employment opportunities to raise their income. Global corporations have the resources to address the issue.

## Corruption

Corruption is a problem in every nation. The problem is more serious in some societies than others do to cross-border differences in political economies and cultures. China is notorious for corruption partly because of the totalitarian nature of the regime and the *guanxi*-based Chinese culture that fosters corruption. Corruption appears to permeate every aspect of the Chinese society today. Global corporations often find it hard to operate in China without practicing actions that are considered corrupted or unethical in the West. Global corporations should employ corporate social responsibility practices to fight against corrupt practices as required by the international community and their home country legislature. In recent years, however, a number of global corporations were caught in corruption scandals in China.

In 2010, four managers of Rio Tinto, a British–Australian mining giant, were sentenced by the Chinese court to 7–10 years in prison for corruption charges. In 2013, Chinese authorities detained four employees of Glaxo, the U.K.'s largest drug maker, for bribing doctors and other hospital staff in order to boost sales in China. The bribery was for \$490 million. The Chinese authorities in 2014 sentenced former senior China executives of Glaxo, including Mark Reilly, the former China Head, to 2–3 years in prison. Glaxo was fined \$261 million, the largest corporate fine ever imposed by Chinese government. Meanwhile, JP Morgan, the biggest U.S. bank, was under investigation by U.S. prosecutors for hiring children and other relatives of well-connected politicians in hopes of steering business to the firm in the

Asia Pacific region. Avon, a large U.S. direct seller of cosmetics, was convicted by the U.S. authorities for bribing government officials to obtain license in China. Avon paid \$135 million fine to the U.S. government. These incidents represent only a tiny fraction of corruption involving global corporations in China.

## APPROACHES TO CSR

A difficulty in addressing CSR issues lies in the long-standing controversy over appropriate approaches to CSR. CSR is defined in different ways. For U.S.-based corporations, it refers to the idea that businesspeople should consider the social and ecological consequences of economic actions when making business decisions. Of course, managers need to advance practices that produce good economic outcomes as well as good social and ecological consequences. What does this mean by 'good'? Business ethics are the accepted principles of right or wrong governing the conduct of business people. Therefore, many equated CSR with ethical behavior. They developed frameworks of CSR from an ethical standpoint. In recent years, a different line of thinking, represented by the shared value perspective, has moved beyond business ethics to view CSR from a business strategy perspective. This signifies a significant shift in thinking and ways of doing business.

### Ethical Approach to CSR

Business ethics scholars tended to consider CSR issues in ethical terms. A most often cited view is the so-called **Friedman Doctrine** proposed by economist Milton Friedman in the 1970s. Friedman asserted that the only social responsibility of a business is to increase profits so long as it does not violate current laws. Businesses should not undertake social expenditures beyond those mandated by the law and required for the efficient running of the business. Friedman believed that businesses should aim to maximize profit because that is the way to maximize the returns that accrue to the owners and shareholders. Many considered the Friedman Doctrine as a 'shareholder view' that works against business ethics. Of course, Friedman clearly indicated that deception or fraud should not be tolerated in pursuing profit maximization.

Another perspective is the **cultural relativism**. This view, often summarized by the maxim of 'when in Rome do as the Romans', suggested that CSR practices are nothing more than the reflection of a country's culture. According to cultural relativism, it is okay for a global corporation to practice bribery in a country if the prevailing country culture practices support corruption (e.g., Kenya, China and Indonesia). It is okay for a global corporation to deny people such basic human rights as access to information and freedom of speech in a country if the culture and business practices in that country hold these values. Clearly, this is NOT OKAY in the view of business ethics.

A third view is **righteous moralism**. According to righteous moralism, home countries' ethical standards are the appropriate ones for global corporations to follow in any foreign countries. This view is typically associated with global corporations from advanced countries. It does not accept the need to adjust to cross-border differences in level of development, business practices, and cultural traditions. It is

argued that fundamental human rights transcend national borders and cultures. These should be respected regardless of location. This perspective was the underlying motivation for the United Nations Universal Declaration of Human Rights, which has been ratified by almost every country. Although this perspective is acceptable in principle in almost every country, it is controversial with regards to the specific fundamental human rights that should be respected in individual countries.

### Strategic Approach to CSR

From the mid-1990s onward, a strategic approach to CSR arose. This proposes that CSR/ethical issues should be incorporated into business strategy. The strategic arguments for CSR developed first as a response to the concerns over environmental deterioration, focusing on how to incorporate environmental concerns into business strategy. In recent years, the strategic approach to CSR has been extended to incorporate social concerns into business strategy as indicated in the shared-value perspective proposed by Harvard University Professor Michael Porter and his colleague Mark Kramer.

The strategic approach maintains that companies should create economic value in ways that benefit the ecosystem and the society. That is, they should create value shared by the company, the society and the ecosystem. The creation of shared value is not about redistributing the value created by a firm. It is about expanding the total pool of value created by the firm. This approach places social and ecological concerns not on the margin, but at the center of what companies do. That is, these concerns are integral to companies' business strategy. Many large global corporations, such as General Electric, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart have started to embrace this approach. There are three general managerial practices by which a strategic approach can be implemented in a country.

The first practice is to conceive of products that meet the society's unmet needs. These needs include health, better housing, improved nutrition, help for the aging, greater financial security, less environmental damage, less poverty, etc. For instance, IBM has sealed an agreement with Beijing city government to provide a digital product with weather forecasting and cloud computing technologies to help combat the city's notorious smog. The agreement is part of IBM's 'Green Horizon' initiative. This is a 10-year program designed to more efficiently manage China's electricity, solar, and wind resources and protect the health of its citizens. Vodafone has developed an M-PPESA mobile banking service to help ordinary people conduct financial transactions in Kenya. The service signed up 10 million customers in three years. Thomson Reuters has developed a monthly service product to provide poor farmers in India who earn an average of only \$2000 a year with weather reports, crop pricing information, and agricultural advice. In doing so, these global corporations serve the society's unmet needs and make a profit, thus creating shared value.

The second practice is to redefine productivity in the value chain to generate social, ecological and economic benefits simultaneously. Global corporations can redefine productivity in many areas, including logistics, use of resources, water and energy, procurement, distribution, and human resource management. For instance, Wal-Mart

reduced packaging and rerouted its trucks to cut 100 million miles from delivery routes, saving resources and energy. This practice also saved it \$200 million in its operating cost. Marks & Spencer redesigned its value chain by reducing the purchase of supplies from distance locations. This is expected to save the retailer over \$200 million annually by 2016 while reducing a large amount of carbon emissions. Coco Cola and Dow Chemical reduced their worldwide water consumption. This generates both good ecological and economic benefits. Improved resource utilization in the entire value chain generates ecological and economic benefits through reduction in waste of scarce resources. It also generates social benefit through improvement in employee skills, worker safety and health, and reduction in working hours.

The third practice is to enable local cluster development to promote communal prosperity. Global corporations are not operating in isolation. Every global corporation is affected by its surrounding infrastructure and other companies located nearby. A global corporation typically succeeds in a community with clusters of similar firms, related businesses, suppliers, service providers, logistical infrastructure, and open and transparent markets. Local community development is a social issue. It is also a business issue because poor development of local community serves as a barrier to a global corporation's competitive advantage. Global corporations can create shared value by promoting cluster development in the local community. For instance, Nestlé actively engages in cluster development by providing financial and technical assistance to local suppliers. In this way, it creates economic value in ways that also enhance the social benefits of the community in China.

The strategic approach has gained acceptance by executives of some global corporations. Shell, Nestlé, and 7-11 have taken the lead in the strategic approach, and developed ways to measure the creation of shared value. The popularity of the strategic approach lies in its synthesis of integrating CSR/ethical issues with business strategy. This is appealing to executives who have to simultaneously deal with the dual pressures for profit maximization and CSR. The creation of shared value is difficult to assess. The ways to create shared value are contingent on the specific circumstances a global corporation faces. Global corporations operating in China need to engage in innovation to develop specific approaches to creating shared value in consideration of their specific circumstances in the country.

## OPPORTUNITIES AND OPTIONS FOR EXECUTIVES

The strategic approach has opened a wide range of opportunities and options for global corporations to address CSR issues in China. The vast differences between China and advanced countries present enormous opportunities for them to benefit from addressing CSR issues if they do it in appropriate ways. Some options for executives of global corporations to seize these opportunities are discussed in this section.

### Considering the Local Context

CSR issues are both ethical and strategic. These issues are ethical because they are indeed related to such ethical

questions as what is right and what is wrong, and because companies have responsibilities for what they are doing to the society and the ecosystem. These issues are strategic because they are related to the fundamental question of what are the purposes and goals of a firm. Managers have to strategize priorities to achieve their company's objectives and goals. Therefore, it is necessary to perceive CSR issues through both ethical and strategic lens. It is important to apply both the ethical and the strategic approaches in accordance with the particular context they face in China.

From an ethical perspective, global corporations used to be primarily concerned about looking, feeling and acting good. They focused on legal and regulatory compliance to prevent misconduct, and promoted philanthropic activities to enhance corporate image. All these are important. Global corporations should comply with international and local regulations on environment protection, labor rights, and corruption. This is needed to prevent misconduct. They should also engage in philanthropic activities. Despite rapid economic growth, millions of Chinese still struggle with poverty, lack of education, illnesses, harmful environment, and natural disasters. Charitable and philanthropic programs are needed to provide support to these people, and are welcomed by the public. A survey by AC Nielsen indicated that more than 50% of customers would choose the products and services from firms that actively participate in charitable and philanthropic activities.

Leading global corporations have actively participated in a variety of charity programs in Asia and China. To help residents in the Mount Everest area who suffer from inhospitable climate conditions, DuPont China provides the residents with innovative energy-saving buildings. Amway sponsors the 'New Year Charity Concert' to raise funds for poor and handicapped children and other vulnerable groups. Cathay Pacific Airways support charity programs in China, including the "I Can Fly" program. It provides educational assistance to underprivileged people aged 15–21. The Brother Group has been promoting employee participation in its "Golden Ring Project" program since 2011. Funds based on how far participants ran are dedicated to fighting cancer. Paul Mak, Mary Kay's CEO in China, has initiated a program to plant trees in the western poverty-stricken areas. Mary Kay donates 12 cents after each sale of its environment-friendly cosmetic bags to start this initiative. It also created a Mary Kay Spring Bud program that funds women to get out of poverty. For \$50 U.S. dollar, a woman can leave her mud hut in rural China and live in a community to attend school for one year. After the Sichuan earthquake in 2008, Mary Kay donated about U.S. \$900 million through the Red Cross to help relief efforts. Sales from Mary Kay operations in China now exceed 25% of its total global revenues.

When participating in charity programs, global corporations need to recognize crucial differences between China and the West in how people and firms perceive charity. In the West, people and firms often make regular financial donations to charities, although they also make some specific donations in crisis times. In China, people traditionally save up money for the future because of the inadequate social insurance system. Chinese do not make regular charitable donations. Most Chinese make donations only in crisis times, such as natural disasters. Some western global corporations did not pay sufficient attention to this difference, and were

criticized for ungenerous donations in crisis times. After the devastating 2008 earthquake, for instance, a list of 'iron roosters' (a symbol of stinginess in Chinese) was published online. On the list were such giant global corporations as Coca Cola, Nokia, KFC, McDonalds, and Samsung. These corporations did make financial donations. Compared to their profits in China and donations made by their Chinese competitors, their donations were viewed as far from adequate. The 'iron rooster' event taught executives of these corporations a hard lesson – they need to pay particular attention to charity programs in crisis time in China.

Global corporations also need to take the local context into consideration when taking the strategic approach to CSR. In reconceiving products, General Electric (GE) developed a special product line to produce affordable medical instruments for rural China. These medical instruments have basic functions only. They are much cheaper than those with more advanced functions. Hospitals in rural China cannot afford to purchase expensive medical instruments. These inexpensive medical products meet this need. The senior author of the article visited GE production site in Beijing several times. He learned from the general manager of GE Health Care China that the products sold so well in rural China that GE started to sell the products to rural hospitals in other developing countries. The design of the new product line helps GE create economic value in ways that benefits the rural society in China and other developing countries.

In redefining productivity in the value chain, Wal-Mart developed a Sustainability 360 Program in China and other countries. To address the pervasive resource waste problem in a developing country like China, this program includes 13 sustainable value networks, each focusing on a specific part of the value chain such as building, food packaging, and transportation. The value networks brought together Wal-Mart employees, associates, suppliers, customers and other business partners to explore ways to improve efficiency in resource utilization and service quality. Wal-Mart has reportedly reduced waste by 80%, saving customers U.S. \$1 billion and utilizing 1.1 billion kilowatt of renewable energy. The Sustainability 360 Program helps Wal-Mart provide high quality products and services that are affordable, ethically sourced and environmentally friendly. These practices enable Wal-Mart to increase resource productivity to create value shared by the firm, the society, and the ecosystem.

In enabling local cluster development, BASF launched a '1 + 3' program in China. To gain the support from the Chinese government, BASF works closely with the China Business Council for Sustainable Development, a national organization established through the Ministry of Civil Affairs of the People's Republic of China. The aim of the program is to provide local business partners with guidance on best practices, expertise and customized solutions in regard to sustainable business. BASF creates a team with three business partners—customers, suppliers, and service providers. The three partner companies then each introduce the same concepts to three further business partners in their own supply chains and so on so forth. The program thus results in a snowball effect. Through this program, BASF business partners have reportedly made progress in production management, environmental protection, transportation safety and emergency response. This program enables BASF to create better

products and services as well as to create benefits for the society and the environment.

Some global corporations have made significant progress in adopting the strategic approach to CSR in China. They still have a long way to go. Past experience seems to indicate that the more they understand the local context and adapt their CSR practices to the Chinese environment, the more likely they are to embrace the strategic approach. Increasingly, global corporations such as 7–11, Caterpillar, and Bank America have realized that CSR is both a moral requirement and a business necessity in China. It is here that lie huge opportunities for innovation, creativity, and business success that help generate economic, social and ecological benefits in the decades to come. It is expected that global corporations will continue to explore innovative ways to create shared value in China in the decades to come.

### Reconciling Requirements

A difficulty global corporations faces in China is the difference between international CSR requirements and local ones. International requirements are reasonably well articulated in the documents of international institutions. The UN Global Compact, launched in 2000, is the world's largest voluntary Corporate Citizenship initiative with 8000 participants from more than 140 countries. The UN Global Compact included a set of ten universal principles that cover major CSR issues in four areas: human rights, labor standards, environment, and anti-corruption. There are also international requirements in regards to some specific CSR aspects. In respect to basic human rights, for instance, the UN Universal Declaration of Human Rights has been ratified by almost every country in the world. With respect to labor rights, SA8000 is one of the most popular international standards based on International Labor Organization codes and the UN conventions. It was launched by Social Accountability International, a NGO based in New York. With respect to corruption, OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions is well regarded as a guideline by global corporations from all advanced countries.

In recent years, China has tried to develop its own local CSR requirements. These include: (1) the China Social Compliance 9000 for Textile and Apparel Industry (CSC9000T) launched by the China National Textile and Apparel Council in collaboration with Social Accountability International; (2) the Chinese Academy of Social Sciences' CSR reporting guideline; and (3) other CSR requirements articulated in a variety of laws and regulations by the Chinese government. These Chinese CSR requirements are at the early stage of development. The enforcement of these requirements presents a serious problem in China. For global corporations, it is crucial to know the differences between international and local requirements, and to work out innovative ways to deal with them. For instance, McDonald's defines its own CSR framework that incorporates key elements of both international and local requirements in China. It uses this framework to address supply chain issues, health and nutrition issues, and environmental issues. When social activists, international and domestic alike, express CSR concerns, McDonald's show them with confidence the ways CSR issues are addressed by

managers and workers of the company. McDonald's also works with both international partners and local Chinese partners in addressing CSR issues, including NGOs, academics, and other third-party institutions. This helps McDonald's to gain credibility on CSR issues both in China and the world.

With regard to anti-corruption, in particular, there are clear differences between international requirements and those that prevail in China. China has developed some anti-corruption regulations. However, these regulations are difficult to enforce because they are often violated by many officials at the very top of the Party and the government. The recent corruption cases of Zhou Yongkang (Member of Standing Politburo of the Party) and Xu Caihou (Vice Chairmen of the Central Military Commission) are only examples. The *guanxi*-based Chinese culture makes it very hard to distinguish between gift-giving in establishing *guanxi* and bribery. While insisting on the international anti-corruption requirements, global corporations have to innovatively work out ways to get business done in the corrupt Chinese environment. As indicated in the corruption cases of Rio Tinto and Glaxo, this is a daunting challenge. In interviews with the senior author, most executives of global corporations in China indicated that a top challenge they face in China is how to succeed in business in the *guanxi*-based culture and corrupted environment. A CEO of a fortune 500 company shared with the author how he had handled this challenge. The CEO invited government officials to parties in his house during Chinese festivals to establish and maintain good *guanxi* with them. He never offered them a bribe. When he met business operation problems, he picked up the phone to talk to the government officials with whom he had established *guanxi*. The problems were easily resolved. If he did not respect the Chinese *guanxi*-based culture, these problems might have developed into big hurdles to the success of his company. Clearly, executives of global corporations need to take into account both international and local requirements to creatively develop ways to address CSR challenges in China.

### Engaging Local Stakeholders

CSR issues in China are so complex that global corporations need to engage a wide range of local stakeholders. Local stakeholders may include employees, media, customers, local communities, the Chinese government, NGOs, and business partners. Past experience indicated that Chinese customers, the Chinese government, Chinese non-government organizations (NGOs), and Chinese business partners have the most significant impact on the success of the CSR initiatives. Chinese customers are increasingly aware of sustainability and social responsibility along with economic progress. Global corporations need to involve Chinese customers in their CSR activities. For instance, Cathay Pacific, together with sister airline Dragonair, launched a "FLY Greener". This is a voluntary carbon offset scheme. It gives passengers the opportunity to reduce their carbon footprint by offsetting the carbon emissions attributable to their journey. Passengers can use cash or frequent flyer miles to pay for their offsets. The carbon offsets provide funding for a number of environmental projects in China, including a small hydro project in rural Southwest China, a wind farm in Changdao, Shandong, and a hydropower station in Lankou, Guangdong. These projects help reduce local air pollution,

enhance the productivity of local farms, and provide power and jobs to local communities.

The Chinese governmental and quasi-governmental organizations are powerful stakeholders. They play a proactive and often dominant role in CSR issues. The Chinese government formulates and proposes new regulations on CSR, and requests both domestic and foreign firms to follow them. The Chinese government often specifies some preferred national targets, such as poverty alleviation and development of environment-friendly technology, in its national 5-year plan. These targets influence CSR activities of both domestic and foreign firms. Global corporations need to actively respond to the Chinese government initiatives, and adjust their business models and strategies in line with both Chinese government requirements and their international obligations. Independent unions are banned in China. The state-run All-China Federation of Trade Unions, whose constitution describes the working class as "the leading class in China," usually sides with management in any labor dispute. It called for all foreign firms to recognize its union, and stated that it would 'blacklist' and take legal action against any foreign firms refusing to allow unionization. In response, Wal-Mart decided to break its long-standing practice of resisting union-organizing efforts at its stores, and established its first ever trade union in its store in Quanzhou, Fujian province in 2006. In the following years, trade unions were established in all Wal-Mart stores in China.

Wal-Mart's ability to gain market share in China has never gained much momentum, however. It has had problems understanding discerning Chinese customers. Chinese buyers are more inclined to tailor-made products and a shopping environment that reflects local preferences. Sun-Art, a large Chinese retail group, has been extremely successful delivering authentic quality products. Shoppers are accustomed to buying their groceries at local outdoor markets. Sun-Art provides this experience by giving its stores a "Chinese street look" where live fresh crabs and turtles, for example, are displayed on table tops and in-store noodle shops. The combination of a street market and super market has been very attractive to Chinese shoppers. Comparatively, Wal-Mart's typical big-box format has lower appeal and its efforts to "localize" its stores have not been as successful as Sun-Art. Sun-Art also sources around 95% of merchandise locally and hires Chinese nationals to run its stores. To be related to the local community, Wal-Mart needs to get past its big-box look and customize its stores for the local Chinese market while maintaining its everyday low price strategy. Engaging the government should go hand in hand with engaging customers in main business. Wal-Mart may have to develop innovative business practices with localized attributes and CSR content to attract Chinese customers.

Chinese NGOs have become more important in developing and monitoring CSR issues in China. NGOs may be divided into two types according to the role they play. One type of NGOs primarily plays the role of overseers, identifying and exposing misconducts in order to compel companies to improve CSR performance. One example is Greenpeace China. It exposed the misconduct of eight global corporations in environmental pollution. The other type of NGOs primarily plays the role of CSR partners. They seek to cooperate with companies in addressing specific CSR issues. The Institute for Public and Environmental Affairs, which worked with Apple to enhance

environmental protection performance, is one example. Although Chinese NGOs may lack experience and capabilities as compared to their counterparts in advanced countries, they often have close connection with the media or even the government. These NGOs can develop projects that are likely to produce positive and practical outcome. It is to the interest of global corporations to work with these NGOs in addressing CSR issues in China.

Business partners are important stakeholders in relation to CSR issues. It was noted earlier that misconducts in environmental pollution and violation of labor rights were often found in the local Chinese suppliers of global corporations. Global corporations were often held accountable for the misconduct of their local business partners. To improve CSR performance, executives of global corporations need to work very closely with local business partners to ensure that they do business in line with the required standards. As global corporations typically need supplies from different local suppliers in different industry areas with different CSR requirements, they need to creatively explore effective ways to work with the diversified local Chinese business partners on CSR issues. The aforementioned '1 + 3' program launched by BASF serves as a good example. The creative approach often needs collaboration from local Chinese government or NGOs.

## CONCLUSION

What actions should executives undertake to advance this strategic shift? First, they need establish a CSR culture. Unless top managers send a clear message to what behaviors are acceptable and what behaviors should be prohibited, employees can easily misinterpret what the organization values. As exemplified by Paul Mak at Mary Kay, executives

need to make CSR part of the corporate culture. Rituals and ceremonies are celebrated for planting trees and educating women. Second, executives need to establish formal CSR practices. These practices should include procedures and policies that explicitly define responsible employee behavior. They guide employee's day-to-day behaviors. Johnson and Johnson, IBM and Citigroup, for example, have developed CSR practices that apply globally. At Citigroup, a single code of ethics applies to all of its employees. It is referred to as a 'Code of Conduct' and covers such practice as fiduciary responsibility, dignity, fairness, and citizenship. As shown in the case of McDonald's, these CSR practices should take into account both international and local requirements. Third, executives need to include CSR as a criterion in performance evaluations. People do what gets rewarded. Shell, Coca Cola and other leading global corporations have issued annual CSR reports to expose their CSR performance to public evaluation. This may also include an 'Open Day' to allow relevant stakeholders and the general public to visit the company and comment on its CSR performance. Most importantly, executives need to strategically integrate environmental, social and governance issues into their core business. Wokal incorporates CSR into its core business in China. It provides loans to assist micro-entrepreneurs in establishing small business to diminish poverty.

Global corporations, particularly those operating in China, have been in a transition from an ethical to a strategic approach to CSR in recent years. They need to take the ethical approach and the strategic approach as complementary, and implement them in accordance with the particular circumstances they face in the host country. Global corporations have explored a number of innovative experiments to do business in China in ways that benefit the company, the society, and the ecosystem. These innovative experiments may inform global corporations operating in other emerging economies.



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**Xiaowen Tian** is a Professor of management, School of Management and Governance, Murdoch University, Australia. After obtaining his PhD from Australian National University, Xiaowen worked and taught at a number of universities in Australia, the UK and Asia, including National University of Singapore, Nottingham University, and Bond University. Xiaowen specializes in international business and strategy with an area focus on emerging markets, and has particular interest in research on strategies of multinational enterprises in and out of emerging markets. Xiaowen has published articles in such referred international journals as *Journal of International Business Studies* and *Journal of World Business*. Xiaowen has also published four books, including *Managing International Business in China* (Cambridge University Press, 2007). (Tel.: +61 8 93606599; e-mail: [x.tian@murdoch.edu.au](mailto:x.tian@murdoch.edu.au))

**John W. Slocum** is a Professor Emeritus at Southern Methodist University and distinguished lecturer at SMU’s Guild Hall Game Development Program. He has consulted for organizations such as Lockheed-Martin, Aramark, Andrews Distributing Company, Celanese, Key Span Energy and University of North Texas Health Science Center, in the areas of cultural change, organization design, and managing teams. He is past president of the 19,000 member Academy of Management and co-author of 28 management books and more than 130 journal articles. He is associate editor of *Organizational Dynamics* and former co-Editor of the *Journal of World Business*. He is editor of *Journal of Leadership and Organizational Studies*. His latest book is *Demystifying Your Business Strategy* (Routledge, 2013). He serves on the board of directors of Kisco Senior Retirement Communities (Tel.: +1 214 460 2116; e-mail: [jslocum@cox.smu.edu](mailto:jslocum@cox.smu.edu)).