
Original Article

Corporate social responsibility in China: Between the market and the search for a sustainable growth development

Received 1 October 2008; revised 13 November 2008; accepted 10 December 2008

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Abstract Despite the opening and greater liberalization of the market, the state still represents a dominant feature in China's economic strategy and policy management. As such, attempts that fail to consider the state's import in corporate social responsibility (CSR) formulation and implementation are unlikely to succeed. In this paper, we start off with an introduction to the issue of CSR and recent interest and developments in CSR in China. We note its externally driven ethos, but argue that further development needs to consider the role of state action. The Chinese state has recently introduced a plethora of reform measures, including labour laws, and these have significant effect on CSR practices. We also suggest that the trajectory of CSR development differs from its 'western' progenitors, and that Chinese history and institutions are critical in fashioning an alternative model and practice. This model appears to be an exception to the idealized expectation of an internationalized market economy conforming to liberalized economic market views, involving rather both an active state and private partnership initiatives and collaboration. We also offer some tentative views on the limitations of the CSR model as practised and suggest a greater reflexivity in terms of aims and philosophy is necessary.

Asian Business & Management (2009) **8**, 129–148. doi:10.1057/abm.2009.1

Keywords: corporate social responsibility; China; labour practices; human rights; multinational corporations; codes of conduct

Introduction

Since the 1950s, we have seen significant growth in the scale, scope and reach of business corporations; many have resources and revenues greater than some nation-states. By 1980, of the 100 largest economies, 57 were countries and the



rest multinational firms (Torrington *et al*, 2005). The firms' size and magnitude means that more power now accrues to firms (Davis, 1977; Korten, 1995); moreover, their privileged position (their seeming immortality and being accorded rights as individuals) makes them especially responsible and accountable for their long-term actions. Increased globalization, a greater awareness of the issues of risk management and sustainability, and a growing scepticism towards businesses have led to calls for businesses to be environmentally and socially responsible, to be accountable and transparent, to be inclusive, equitable and sustainable and to be ethical and stable (Soros, 2000; Tanimoto, 2004; Welford, 2004; Owen, 2005). For one commentator, 'capitalism needs to be reinterpreted to make it decent, and companies, which are the key institutions of capitalism, need to be rethought' (Handy, 1997, p. 151).

Corporations have responded by embracing the idea of greater corporate responsibility and its proponents are keen to demonstrate that business has responsibilities beyond the production of goods, services and profits and that socially responsible business can help to solve important social and environmental problems (Andriof and McIntosh, 2001, pp. 15–16; see also Starkey and Welford, 2001; Kotler and Lee, 2005; Hufsted and Allen, 2006; Welford and Frost, 2006). However, there has been no consensus about what corporate social responsibility (CSR) entails. It ranges between broad and expansive notions, for example, fighting poverty, HIV/AIDS or pollution, to more specific goals, such as having a good relationship with local communities, conducting business with integrity and honesty and fighting corruption and bribery. Business representatives see CSR as 'operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social responsibility is a guiding principle for every decision made and in every area of business' (Business for Social Responsibility, 2008). Some studies posit a positive relationship between a company's corporate social performance and its financial performance, although conclusive data of such a relationship is not available (McWilliams and Siegel, 2000; Hillman and Keim, 2001; Margolis and Walsh, 2001; Roberts and Dowling, 2002; Orlitzky *et al*, 2003; Paine, 2003; Barnett and Salomon, 2006).¹ Clearly there is no consensus on what constitutes CSR and how it impacts on business, except that it is a contested concept, may vary across time and depend on individual perceptions of responsibility/obligation that in turn revolve around the role of business organizations in society (Frederick, 1986, 1994; Habisch and Jonker, 2005; Dahlsrud, 2006).

This paper does not seek to add to this conceptual confusion. Rather, its focus is on CSR and its emerging practices in an emerging economy, China. It begins with a discussion of CSR and then moves to an exploration of CSR practice in Asia and China. It notes that CSR is perceived to be a recent



phenomenon; also that the state remains and plays a dominant role in China and that for effective and meaningful CSR practices, the state has to be part of the CSR agenda. The state has, in the main, responded actively and positively, seeking cooperative and collaborative attempts to implement CSR under its new state rubric of a harmonious society (*hexie shehui*) through which development and social and environmental justice may be married. As such, the practice in China is quite different and may have further implications on the evolution of CSR practices globally.

The Corporate Imperative: Unresolved Tensions

According to Lantos (2001), there are two dominant viewpoints on the role of business in society, which lead to different views on CSR. The first, based on neoclassical economic theory, defines businesses as institutions seeking to maximize their profits to benefit shareholders (Berle, 1931; Levitt, 1958; Friedman, 1970).² In contrast, the stakeholder theory approach holds that companies have a social responsibility role, as their actions impact on all in society and benefits accrue to them through public support and infrastructure. As such, they need to consider the interests of all parties affected by their actions (Freeman, 1984). This debate has been ongoing and remains unresolved.

Of late, interest in CSR has grown significantly (McWilliams *et al*, 2006). This is, as we pointed out, due to a conjunction of historical and economic factors, namely globalization and its attendant effects. More importantly, what CSR entails remains disputed (McWilliams *et al*, 2006; Rodriguez *et al*, 2006). Carroll (1979, p. 500) sees it as encompassing 'the economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time'. In its 2001 Green Paper on CSR, the EU Commission defines CSR as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis' (European Commission, 2001). The World Bank sees CSR as a commitment by business to 'contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development' (World Bank Group, 2003, p. 1). Indeed, here stakeholders are a central part of CSR principles and practices (Wheeler and Sillanpaa, 1997; Gibson, 2000; Hopkins, 2003). Clearly, there is a range of views and each has its own logic; what is apparent is that CSR has now become a 'core construct' of the business and society field and cannot be simply dismissed as outmoded or irrelevant (Carroll, 1979; Dahlsrud, 2006).



Flexible and ambiguous as the term is, CSR has proven to be extremely resilient, continuing to grow and widen (McAdam and Leonard, 2003).

Carroll and Buchholtz (2000) see CSR as consisting of four levels of social responsibility, incorporating the economic, legal, ethical and philanthropic dimensions of a business. The first dimension in this model, economic responsibility, seeks to serve members of a society with goods and services while remaining profitable. The second, legal responsibility, involves not only profit-making, but also seeks to ensure business is conducted according to the laws and regulations formulated by the government. It also requires companies to comply with minimum legal requirements in producing and providing their goods and services. Ethical responsibility seeks to effect 'doing the right thing', that is, what is right and proper, rather than what is legislated for. This constitutes good corporate citizenship. Lastly, the philanthropic dimension involves the companies contributing and giving back to the community, either through financial support or other equivalent support to community projects or services. The latter is often used by corporations as it enables them to strengthen their brand image and/or create good public relations for the firm (Porter and Kramer, 2002; Kitchin, 2003). Furthermore, it is tangible, builds goodwill and enhances staff morale, as it posits the corporation as morally responsible.

However, CSR is often decoupled from the firm's philanthropic programmes and operating practices (Porter and Kramer, 2002). There are those who argue that corporations should not concern themselves with social responsibility issues; this 'misguided virtue' deflects businesses from their primary role of profit generation (Henderson, 2001). The late but highly influential Milton Friedman (1962) also argued that a firm's primary responsibility is to maximize wealth for its stockholders and, further, that socially responsible practices, including corporate philanthropy, intrude on the rights and freedom of stockholders by preventing them from deciding how they can and/or should dispose of their funds.

Despite these critiques, CSR has been gaining momentum. The increased focus on values and ethics as a management tool, pressure and arguments from stakeholders and non-governmental organizations (NGOs) backed by greater media scrutiny have all ensured CSR is firmly entrenched in corporate discourses. With the increased focus on CSR in risk management, pension funds and other institutional investors are increasing their demands for more socially responsible practices and actions. The mere risk of loss of corporate reputation has become an important driver for corporations to consider adopting CSR in their corporate actions (Welford and Frost, 2006) and as CSR projects evolve, they become more nuanced and complex, dealing with myriad issues. This has led some critics to argue that the ambitious scope of CSR makes it ineffective and impractical, as corporate practices simply cannot meet



and fulfil all such requirements. Proponents disagree, arguing that CSR is and can be an important first step in raising awareness on these complex socially and politically embedded issues.

CSR in Asia: Differences, Culture and Institutions

In a comparative study of CSR in 15 countries across Europe, North America and Asia, Welford (2005) suggests that CSR may be less prevalent in developing Asian economies, although CSR practices tend to track their more developed counterparts. Birch and Moon (2004) note that CSR performance varies greatly between Asian countries and a wide range of issues are addressed, for example, education, philanthropy, environment and employee welfare; they also point out that businesses engage in many different modes of action to implement these measures, ranging from volunteering, partnerships and the establishment of foundations. Chapple and Moon (2005), in their survey of CSR reporting in Asia, inferred that CSR in Asia tends to occur in waves. The first includes some form of community involvement; the second and third involve socially responsible production processes and employee relations.

It would appear, therefore, that CSR is a western invention which is then transferred to developing countries, including Asia. A more reflexive engagement with Asian cultural traditions and histories would however readily reveal that the contrary is true in many parts of Asia. Frynas, for example, points out that 'business practices based on moral principles were advocated by the Indian statesman and philosopher Kautilya in the 4th century BC' (Frynas, 2006, p. 17). Similarly, Visser and McIntosh (1998) draw our attention to the long-held and ethical condemnation of usurious and unscrupulous business practices in developing countries that practice Hinduism, Buddhism, Islam and even Christianity (see also Nelson, 2004).

CSR is perceived differently in different societies. Institutional and cultural practices affect the conceptualization and practice of CSR, for example, American organizations may conceive CSR differently from their European counterparts (Matten and Moon, 2004).³ Similarly, one would expect the Chinese to see CSR differently. Nonetheless, a number of researchers have pointed out that debates over CSR in Asia tend to follow developments in the west, though they may have a different focus (Rock, 2002; Ruud, 2002). They also tend to lag behind best practices in the 'west' (Welford, 2004). This is not surprising, given that CSR as a practice is recent and for Asia not only novel, but rather another latest management technique which Asian firms have to incorporate into their business. Asia is in many ways distinguished by late-developing economies and as a consequence multinational firms and foreign



investment dominate its economic transformation. The growth in such multinational corporation (MNC) activity has been accompanied by an expectation that they would be able to demonstrate socially responsible leadership in their business practices (Kostova and Zaheer, 1999; Margolis and Walsh, 2003).

Despite these concerns, there is one more telling constant concern – that governments will marginalize and sacrifice CSR for economic growth and development. This is because governments have to deal with what they perceive to be more pressing problems – provision of services, administering citizens and poverty reduction. The very nature of business practices further compound the problem. Internationalization and internalization of business functions also often result in the export of polluting processes to other parts of the world. The concern with business performance is of course a major concern.

The Historical Evolution of CSR in China

The 2008 Olympic Games put China in the spotlight. Its record on human rights, labour rights and environment received more media attention than previously. There have been criticisms of companies investing in China or dealing with goods produced partially/wholly in China, and they are likely to have considerable negative effect on a company's relations with consumers and investors. China has been an enigma and invokes fear and awe. It is today the third largest economy, after the United States and Japan, and its pace of development is the envy of many, though it is not without its problems. Wang Hui summarizes the situation as follows: 'As markets expanded, polarisation between wealth and poverty, capital flight, social inequity, the environmental crisis, unemployment, corruption and similar phenomena rapidly spread and the social need for the protection of basic fairness (that is, social benefits and insurance) became more acute by the day' (Wang, 2003, p. 12).⁴ These issues have prompted the Chinese government to re-examine its aims and direction and lately to fashion its vision of a more balanced and harmonious society (Zhixin, 2006). Consequently, state environmental laws and agencies have strengthened and CSR as a 'new' management technology could become part of the Chinese state's arsenal of tools to develop its 'harmonious society'. However, transferring CSR practices which have in the main been conceptually developed in 'western' societies to an emerging transitional economy is fraught with difficulties. Cultural and different practices of ethical behaviour are clearly important, but so are the effects of prevailing institutional practices and arrangements within Chinese society and polity. These affect the practice of CSR and companies find themselves caught between balancing CSR issues and the corporate credo of profit maximization.



Xi (2006) writes about CSR as a matter of ethics and argues that 'Chinese enterprises have not been well prepared to act on this. Many still do not have sufficient systems in place to do so'. He goes on to argue that CSR has become more important since the advent of the twenty-first century and that it makes business sense to incorporate greater social responsibility in business calculations.

Zhou Weidong (2006) has identified at least three phases of CSR development in China: (1) introduction: CSR 101 (1996–2000); (2) wait-and-see years (2000–2004); and the third phase (2004–present). During the first phase, Chinese firms were exposed to CSR practices via auditing by MNCs. This happened predominantly in the consumer goods and retail sectors and many Chinese firms readily sought to comply with these requirements as part of meeting customers' demands. The government, media and general public were not involved, as CSR was perceived to be a new imported idea, presenting both challenges and opportunities to China, its government and businesses. As the assistant minister of The Ministry of Commerce, Yi Xiaozhun, indicated, 'Despite the impressive progress, we are by and large at the starting stage of CSR. We need to further explore relevant concepts and systems that accommodate the realities of Chinese society' (Xi, 2006). Indeed, China's large and cheap supply of labour, lack of transparency in its legal and regulatory system, weak enforcement mechanisms and restrictions against labour organizing and civil society actions all pose challenges to implementing both the tenets and practice of CSR in China. CSR could well be 'translated' and take on a new form as it 'travels' and spreads into China.

CSR in China: External and Internal Driving Forces

In China, international organizations, Chinese academics and NGOs have, over the years, become more vocal and pushed for greater CSR compliance (Lu, 1997; Wu, 1999). Europe, for example, introduced the Directive on Waste Electrical and Electronic Equipment (WEEE) and the Restriction of Use of Certain Hazardous Substances (ROHS) requiring companies exporting such equipment to Europe to comply with the stipulated requirements. Influenced by these directives, many regions and countries, for example, China, Korea, Japan and Taiwan, have drafted and/or passed similar legislation. Increasingly, purchasing agents from MNCs require suppliers to adopt green supply-chain management precepts (Frenkel, 2001; Zhu *et al*, 2005; Egels-Zanden, 2007; Yu *et al*, 2007) and comply with certain codes, for example, SA8000, and exercise their market power (through cancelling orders for non-compliance). All major athletic footwear and toy companies have their own code of conduct (Yu *et al*, 2007). Mattel, for example, has introduced Global Manufacturing Principles

requiring all its factories and suppliers to comply with their standards. Mattel also established their own independent Monitoring Council and publishes these results on its website. Under pressure from NGOs, Hasbro and Mattel proclaimed their acceptance of a common industry standard in 2004. Reebok also had its Human Rights Production Standards, introduced in 1997 (Yu *et al*, 2007), focusing on labour rights and standards, but this does not extend to its purchasing suppliers. Because of this, critics have pointed out that such codes do not necessarily extend protection to many workers within the subcontracting area and as such are not efficacious (Graafland, 2002; Chen, 2004; Gallagher, 2004; Egels-Zanden, 2007).

Chinese suppliers have traditionally been quick to comply, but are now more recalcitrant. Compliance is however easily subverted (Graafland, 2002; Liu, 2003; Murdoch and Gould, 2004; Ngui, 2005), as they can resort to a range of strategies to seek to effect or convey the impression of compliance, including bribes, harassment and coaching of employees, and double book-keeping. Some Chinese industry leaders have responded more pro-actively and in May 2005 the China National Textile and Apparel Council introduced a China-specific standard, China Social Compliance 9000, for the textile and apparel industry (CSC9000T). The standard describes itself as incorporating Chinese legislation and regulations, international standards and practice, and the specific needs of the Chinese textile and apparel industry (http://www.csc9000.org.cn/index_e.html#). The self-reporting system that CSC9000T relies on remains susceptible to problems related to corruption, transparent reporting and harassment of interviewees. Indeed, Chinese enterprises were frequently found to be in breach of environmental regulations (Ma and Ortolano, 2000) despite the pronouncement of more industry standards⁵ and a more visible green business trend in China and globally.

At the same time, the Chinese government took more notice of these 'new' practices, particularly when trade and labour conditions became intertwined. They were primarily concerned with CSR as a trade barrier and the cost implications of CSR implementation. As the largest recipient of foreign direct investment and cognisant of it becoming the 'world's factory' and a base for high-polluting industries, where profits are readily repatriated, the Chinese government has become more conscious of the health and environmental costs arising from relentless economic growth projects. The government also realized that 'western' companies operating in China realize profits from cheap Chinese labour. These involve contracting and sub-contracting arrangements where labour practices are particularly weak. There is:

- excessive overtime;
- no compulsory minimum wage;



- lack of social security systems and low level of occupational safety;
- poor housing conditions for employees living on the premises;
- no freedom to form independent unions;
- no possibility for collective bargaining with factory management; and
- human rights abuse of many kinds.

These issues have been well-documented by the media, academics and observers (Chan, 2001, 2005; Murdoch and Gould, 2004), and clearly these practices are not congruent with the principles and practice of *hexie shehui*. As such, the government has sought to improve workplace conditions (Frost, 2002) and also to ensure that these excesses and costs can be contained, if not borne by foreign businesses. Concern over CSR also dovetails with Chinese economic expansion overseas, as increasingly Chinese firms are internationalizing and have to grapple with best CSR practice. As such, there are lessons for Chinese firms which will aid their internationalization, and enhance their marketability and profile. At the same time, the idea of CSR accords with the government's pronouncement of building a more harmonious society where social responsibility and justice are conjoined with higher productivity gains and greater competitive advantage.

Today, interest in CSR in China has widened from being primarily a concern of exporting companies to include state-owned enterprises (SOEs). The launch in early 2004 of the China Business Council for Sustainable Development (CBSD), the Global Compact Summit in Shanghai in 2005 and an increasing number of local conferences in China testify to the growing attention to CSR-related issues in China.⁶ The *China Daily*, for example, reported in 2006 (27 October) that 'Corporate social responsibility, or CSR, is creating a buzz in China's business world like never before. From NGOs to government institutions to the private sector, everyone's talking about it'. Increased activity does not necessarily translate into better and more effective compliance with CSR values and standards, but rather that increasing globalization and a concomitant increased awareness and sensitivity of environmental and business ethical issues makes this move towards greater CSR necessary. Production and supply-chain management issues have come to the fore and an enhanced interest from investors regarding 'socially responsible investment' have put the spotlight on corporate practices. Moreover, regulations and laws impacting on environmental and social issues are increasingly felt at supra-national and national levels, prompting a reconsideration of ethically and socially responsible behaviour. Increasing media attention on human rights abuses in China has also impacted on the evolution and concerns of CSR practices in China. Nonetheless, the challenges on effective CSR implementation remain significant, and are not easily resolved.



Where is CSR Heading?

CSR has been developed in a western context and is pushed by 'western' governments, activists, consumers and investors. Arguably, international influences are the drivers of the CSR agenda in China (Gerson, 2007). However, this view fails to take note of Chinese reality and history. The Chinese government, constituted by the Chinese Communist Party (CCP), is the most dominant force in the country. Consequently, CSR cannot be introduced without its support and active participation. China's socialist roots also mean that many Chinese companies, particularly SOEs, have traditionally been socially responsible for their employees. There was no functional differentiation between state, companies and society; firms had to perform social functions and were responsible for looking after their workers (Goodall and Warner, 1997; Lu, 1997), such as providing housing, pensions and health care. The CCP also established a number of institutions, for example, *zhigong fuli* (workers' welfare system), trades unions and *danwei* work units to improve workers' welfare. Increasing liberalization and marketization of the economy means that the state no longer funds all these 'welfare' functions (Murdoch and Gould, 2004) but rather that 'Chinese enterprises are ... (now) allowed to get down to the simple business of showing a profit. Some of the most economically dynamic sectors of the economy ... have thrived in an almost completely unregulated environment ... many of these frontier industries have been highly polluting and have offered rock-bottom wages and minimal health and safety standards ...' (Young, 2002, p. 37).

This neoliberal impulse has caused concern and the Chinese government's proclamation of ensuring 'greater harmony' means that further reforms aimed at socially and morally enhancing corporate practices and behaviours are likely. Recently, the Chinese government has made environmental protection an issue of priority and beefed up environmental protection laws and regulations. The National Development and Reform Commission declared that the development of a recycling economy was to be accelerated and accelerated in the 11th Five Year Plan (2006–10). The State Environmental Protection Agency (SEPA) has been given greater enforcement power. Another significant development has been the reform of labour laws. On 1 January 2008, new amendments to the labour contract law were enacted, providing greater surety, security and protection for all employees. This new contract law contains rules on hiring and firing, and wages are also regulated. Furthermore, all contracts have to be offered in writing, ensuring that employees are briefed and informed of their rights and entitlements. There are other provisions providing more certainty, protection and rights for employees; they clearly signal a changing relationship between employer and employee in China. The problem is, however, not so much the lack of laws and regulations to protect



rights, but weak and 'flexible' enforcement of these rights (Chan, 2002, 2001; Pringle and Frost, 2003).⁷

Bribery, corruption and relationships further compound the issue of CSR practice (Tam, 2002; Millington *et al*, 2005). '(P)rofessional morality has been weakened, the sense of moral responsibility ... dimmed and the phenomenon of money-worship has grown', provides a succinct summary of the emerging 'market ethic' practice in contemporary China (Harvey, 1999, p. 85; see also Hanafin, 2002; Redfern, 2005). However, as a number of researchers have pointed out, taking advantage of a weak legal system or of a culture of weak governance to gain a corporate advantage that may disadvantage other humans or the environment is not simply legally questionable; it is also not ethical (Chan *et al*, 2002). CSR-conscious companies can make clear to local officials and authorities that corruption and bribery are unacceptable and that they are prepared to bear market or industrial losses to ensure that corporate CSR standards are observed. In so doing, these firms can help to shape the direction of CSR practices in China. This may require them to work to ensure their contractors and sub-contractors comply with their specifications and requirements, and can involve increased dialogue, auditing and cooperation with local authorities and NGOs to create standards and codes of conduct. More importantly, they need to ensure enforcement and monitoring of these codes and standards through genuinely independent authorities. By setting examples indirectly for others, these firms can help to raise standards in the community they are in, while also enabling spill-over effects (Radin, 2004).

Consumers in China, like their counterparts elsewhere, have also become more aware of their rights. They are increasingly calling corporations to account and are often aided by the media and the emerging technological landscape. For example, mobile phones, the web and blogs have enabled environmental and human rights abuses to be widely circulated, prompting governmental responses to these abuses. NGOs have helped to facilitate these actions. The media has also been more active and aggressive in reporting on the environment, for example, water shortages connected with industrial energy consumption, and desertification and pollution from coal-fired power plants (*People's Daily*, 27 July 2004; *China Daily*, 3 August 2004). Clearly the practice of effective CSR in China is rife with challenges, promises and problems, and contradictions abound particularly over the roles of the state, state officials and issues such as independent unions, access to information for workers and freedom of expression within the workplace and beyond.

Conclusion

Lester Thurow wrote in *The Future of Capitalism* that to be relevant, capitalism needs to renew itself, to 'undergo a profound metamorphosis' (Thurow, 1996,



p. 326) His solution was to shift capitalism from ‘a consumption ideology to a builder’s ideology’ (1966, p. 315). This clearly requires capitalism to ‘make investments that are not in any particular individual’s immediate self-interest, but are in the human communities’ long-run self-interest’ (1966, p. 308). As such, it needs to be more inclusive and responsible and incorporate the social and environmental in its deliberations. Others have echoed this view (Drucker, 1946; Goyder, 1961); Drucker in particular repeatedly and consistently drew attention to management’s responsibility to society. Morality plays a key role in these analyses (French *et al.*, 1992; Mellahi and Wood, 2003). The difficulty is that morality is rather fluid, and arguably legal remedies are more effective. Not only do they impose sanctions, but they set out clearly breaches of the law. In the case of China, Chinese legal theory holds that in case of a conflict between domestic law and an obligation of international treaty law binding on China, the treaty obligation prevails (Chen *et al.*, 2002; Potter, 2002). However, such provisions are problematic, as local administrative officials may lack knowledge and inclination to comply with the provisions and obligations of international law. Multinational companies can certainly weave and implement these obligations into their corporate practices, demonstrating to authorities how standards of international law can be implemented at the local level. These practices are also more in keeping with CSR principles, whereby CSR is not just about complying with the law, but going beyond that to ensure responsibility is maintained and enhanced.⁸ Multinationals can also seek Chinese governmental assistance in implementing legal standards that are important for their success and for attracting foreign investment. Christman and Taylor (2006) found that MNC compliance with environmental and CSR standards is driven by customer preferences, customer monitoring and expected sanctions from customers in their home countries (Tanimoto, 2004; Jenkins, 2005). In other words, it is externally driven. This strategic pro-activity is importantly impacting on and influencing local institutional order, rendering local systems more porous and amenable to changes.

The Chinese government has also recognized the advantages arising from CSR practices; they enhance value, corporate reputation, foreign investment and access to markets in developed economies (Kitchin, 2003; Chapple and Moon, 2005; Jenkins, 2005; Visser, 2005; Baskin, 2006). As such, it has embraced CSR, albeit tentatively, seeking to incorporate it within its sphere of influence. The effects of CSR may therefore be considerable and could lead to a more socially and economically sustainable China, especially when the contemporary Chinese business environment is plagued by ‘weak legal system, weak civic accountability, market distortions, public cynicism and workers lacking moral self-efficacy’ (Snell and Tseng, 2002, p. 449). These are telling criticisms rehearsed repeatedly (Tam, 2002), but for pragmatists, CSR offers an opportunity for change and the possibility to raise the visibility, profile and



marketability of Chinese brands internationally, helping to obviate the negativity surrounding Chinese business practices and their brands. Moreover, via effective monitoring of CSR principles and practices, business practice standards are likely to improve through greater accountability and transparency, benefiting Chinese consumers, workers and the larger international community.

Analysing the use of different company strategies can be helpful in explaining some of the more local, positive/negative, short-term and incremental forms of changes that CSR and attendant practices can effect. This micro-level perspective must however be combined with an understanding of how global political and economic forces interact within local contexts. In terms of the regulation of social hazards, the commodity or global value chain analysis offers us an entrée in understanding how and why different labour, social and environmental standards and practices are created and exploited in different localities around the world (Frenkel, 2001). It can also help explain how codes of conduct spread through buyer-driven chains, as they tend to be dominated by northern corporations which induce their southern counterparts to adopt these standards and/or codes.⁹ This is strategically prudent, as firms are consciously and deliberately shaping the standards and practices of compliance; moreover, it makes both good economic and marketing sense (McWilliams *et al*, 2006). By transforming social and environmental issues into measurable and monitorable standards, an 'audit explosion' (Power, 1999) replete with audits, reviews and evaluations transcending both the public and private sectors is created. This compliance ethos recreates codes, standards and audits as a means of self-regulatory management systems, but may not critically engage with non-technical issues (Power, 2003). Matten and Moon (2004) suggest that this move towards a voluntaristic and 'privatized' practice is part of a wider trend in global governance (see also Moon, 2002; Matten and Crane, 2005). Blowfield and Frynas (2005, p. 508) concur, seeing such shifts as 'means of filling gaps in governance that have arisen with the acceleration of liberal economic globalisation'.

However, these analyses fail to explain why companies adopt these codes and standards and how they affect workers and local communities in developing countries. Power is missing in these analyses and even when recognized under-estimated. The incorporation of CSR in organizations cannot therefore be accomplished through a compliance strategy alone; changing power relationships is important. This involves sanctions, education, cultural and organizational transformation, and appropriate state action (Graham and Woods, 2006). Moreover, advocates of codes need to be aware that CSR, codes of conduct and external monitoring may become proxies for civil and political rights in China, and can reinforce and create greater room

for independent local actors working on rights defence (*weiquan*) and human rights issues.¹⁰ As a concept, an ideal, CSR will remain ‘in fashion’ as the Chinese government seeks to construct CSR as scaffolding to enable its ‘harmonious society’. Such an approach to CSR is different from our present understanding and conceptualization of CSR and can be captured by the state’s agenda just as much as ‘western’ ideas of CSR are amenable to ‘managerial capture’ (Valor, 2005). CSR will evolve and China offers us a perspective and prism through which CSR could further develop.

About the Author

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Notes

- 1 There is, however, literature that suggests positive CSR associations can enhance brand and product evaluations, promote brand choice and affect brand recommendations (Drumwright, 1994).
- 2 This has its genesis in the oft-cited case of Dodge Brothers vs Ford Motor Company, where the court argued that businesses in business organizations are primarily conducted for the benefit of their stockholders. In a similar vein, Berle argued in 1931 that ‘all powers granted to a corporation or to the management ... are necessarily and at all times exercisable only for the ratable benefit of all shareholders’ (Berle, 1931, p. 1049).
- 3 There is research which points to cross-national variance in the ‘west’, for example, Matten and Moon (2004), Aguilera *et al* (2006), Maignan and Ralston (2002), Maignan and Ferrell (2003).
- 4 At least half of the world’s 10 most polluted cities are in China and environmental degradation costs are estimated to be equivalent of 8–12 per cent of GDP annually (Chan, 2005).
- 5 In 2006, China launched China CSR Management System (CCSC) Guidelines and Provisions, a local CSR standard applicable to all sectors. It set up regulations and provides for standards in five areas: labour protection, environment protection, credit, social charity and product quality. In March 2007, an electronics standard came into effect.
- 6 The CBSD is a coalition of Chinese and international companies seeking to maintain and promote sustainable development. Its membership includes: Sinopec Corp, Shanghai Baosteel Group Corp, First Auto Works, China Ocean Shipping (Group) Company (COSCO), China International Maritime Container Group, China Enterprise Confederation, Shell China, BP China, BASF, Novozymes China and Lafarge China.



- 7 This problem of enforcement could be due to: the multi-layered character of Chinese law; flexibility or differences in implementation across legislative levels or geographical regions; a weak court system; public servants or authorities neglecting enforcement in the interest of attracting or holding on to jobs-generating industry; and corruption. The distrust and dislike of the use of law may also be another factor. One particular example of this weak and 'flexible' practice, for example, is the right to collective bargaining, which is a feature of Chinese labour law; yet many are unable to exercise this right and are jailed for trying to do so (Diamond, 2003).
- 8 This is difficult to maintain, as MNCs are often linked to inferior firms through their supplier network (Hussain-Khaliq, 2004; Kaufman *et al*, 2004; Nielsen, 2005).
- 9 Codes are often developed without sustained involvement from local actors, particularly local workers. Workers are often not consulted or given opportunity to participate in developing the codes. They are frequently poorly promoted and monitoring and enforcement is complex and problematic; inspections are *ad hoc* and not necessarily carried out by skilled, and in some cases, 'independent' personnel.
- 10 Business-based CSR activities can support education of labour practices, rights and responsibilities, enable capacity building and local organizing. As such, it can be an important aspect of 'developmental' democracy.

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