
***Report for
Corporate governance &
Social Responsibility
Assignment 1 - Water***



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Module Name	Corporate Governance & Social Responsibility
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1. Executive Summary

This report will:

- Evaluate the role of privatised water companies in terms of Carroll's pyramid of Corporate Social Responsibility.
- Argue the motivations for privatisation of water.
- Discuss the sustainability issue of water provision.
- Discuss modern water companies the running strategies.

With the development of society, more and more Chinese drinking water enterprises no longer only pay attention to economic interests, but will focus more on corporate legal responsibility, ethical responsibility and public welfare responsibility, that is, gradually realize the requirements of the Carroll Pyramid. .

The shift in responsibility of these privatized water resources has promoted the privatization of water resources to a certain extent, but it has not been able to conceal the drawbacks of privatization of water resources, such as it may lead to lower water quality and higher water prices. But the advantages of privatization of water resources are also obvious, it can improve water resource utilization and ensure government public services.

However, the scarcity of water resources will inevitably lead to the commercialization of water resources. If people want to ensure the sustainable development of water resources, the privatization of water resources is an inevitable road. Therefore, governments should strengthen supervision and management of water resources privatization.

2. Introduction

2.1 Background to Water

With the increasing use of industrial production water and people's domestic water, more and more people are turning to the drinking water industry. In China, since 2000, a number of private drinking water companies have entered the Chinese drinking water market, making the drinking water market very active. At the same time, each company has different business rules, which makes it possible to recognize the different ways of survival of many companies.

2.2 Important Concepts

2.2.1 Corporate Social Responsibility

Nowadays, Corporate Social Responsibility (CSR) refers to the responsibility of enterprises to create profits, share liabilities for shareholders and employees, and bear responsibility for consumers, communities and the environment. It does not only requires the enterprises focus on making profit, but emphasizes the need to pay attention to other values, like the contribution to the environment, to all stakeholders and to society (Zuhai and Kai, 2017).

2.2.2 Stakeholder Theory vs Shareholder Theory

The shareholder theory is originally proposed by Friedman Milton (1962) and shows that the company is established under the capital contribution of the shareholders who owns at least one share in the company, so the responsibility of the company is to bring more profits to the shareholders, to give back to the shareholders' investment. But from the current point of view, the shareholder theory is now seen as the historic way of doing business with companies realising that there are disadvantages to concentrating solely on the interests of shareholders (Kershner, 2017).

On the other hand, **the stakeholder theory**, states that a company owes a responsibility to a wider group of stakeholders, other than just shareholders. A stakeholder is defined as any person/group which can affect/be affected by the actions of a business. It

includes employees, customers, suppliers, creditors and even the wider community and competitors. Edward Freeman (1984), the original proposer of the stakeholder theory, recognised it as an important element of Corporate Social Responsibility. Nowadays, some of the world's largest corporations claim to have CSR at the centre of their corporate strategy (Richter and Dow, 2017).

2.2.3 Carroll Pyramid

Pyramid of Corporate Social Responsibility, also known as the **Carroll Pyramid** (1984), was proposed by Archie Carroll in 1983. He regards corporate social responsibility as a structural component, which is related to four different aspects of the relationship between business and society. It includes economic, legal, ethical and philanthropic responsibility which the enterprise should take in a certain period of time. The detailed description of these four responsibilities will be explained in the main body of the article (Carroll, 2016).



Fig. 2-1 Carroll Pyramid

2.2.4 Sustainability

Sustainability is a process or state that can be sustained for a long time. The sustainability of human society consists of three inseparable parts of ecological sustainability, economic sustainability and social sustainability (Kimberly, 2018).

3. Main Body

3.1 Carroll Pyramid

As a Chinese student, the author knows more about Chinese privatised water companies. Therefore, the author intends to use the example of Chinese privatised water company to explain the four corporate responsibilities of the Carroll Pyramid.

3.1.1 Economical Responsibility

Corporate economical responsibility means that every enterprise uses profit as its most basic business goal, that is, it provides returns for shareholders who invest in the company. The bottom of the Carroll Pyramid is the economic responsibility of the company, and also shows that economic responsibility is the original intention of each company (Carroll, 2016).

Nongfu Spring is the largest brand of bottled water in China. According to the statistics of the China Merchants Research Institute in 2018, Nongfu Springs bottled water accounts for 20.5% of the bottled water market in China. For every 5 bottles of water sold, there is one bottle from Nongfu Springs (Wen, 2018).

According to the financial report of Nongfu Springs, the author used the statistical software to map the annual sales (Billion Yuan) of Nongfu Spring's bottled water from 2015 to 2018 into a statistical chart. It is shown as follows

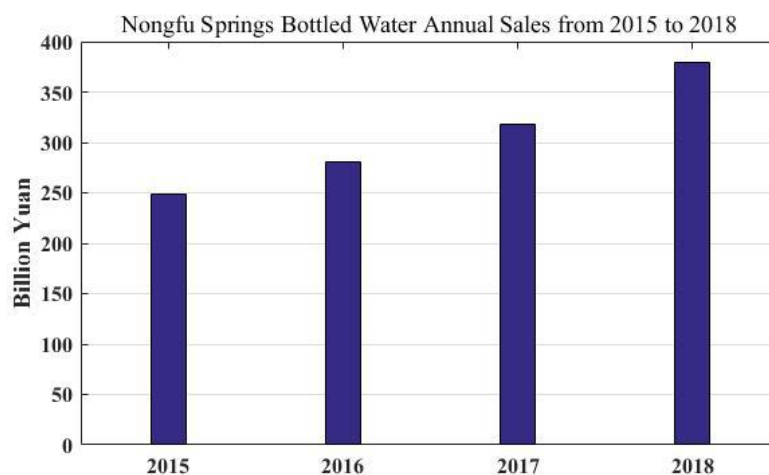


Fig. 3-1 Nongfu Spring Bottled Water Annual Sales from 2015 to 2018

It is not difficult to see that Nongfu Spring's annual sales have steadily increased by about 20 percentage points in the past four years. This increase is due to the increase in sales and the regulation of prices by Nongfu Spring. In 2015, only in the cities with higher consumption levels such as Beijing and Shanghai, the price of bottled water for each bottle of ordinary farmer's spring was 2 yuan, and other cities maintained the price of 1.5 yuan or 1 yuan. However, at the end of 2018, the price of ordinary Nongfu Spring bottled water in China was adjusted to 2 yuan, and the price of big cities has been adjusted to 3 yuan or even 4 yuan, which brought a considerable profit to Nongfu Spring (Chenxi, 2018). The profits from the sales revenues brought higher returns to shareholders. It is also a sign of corporate economical responsibility.

3.1.2 Legal Responsibility

Corporate legal responsibility means that an enterprise is an integral part of society. The society gives and supports the power of enterprises to undertake productive tasks and provide products and services to the society. It also requires enterprises to achieve economic goals within the legal framework (Carroll, 2016).

Since the application of water is spread all over the life of people, it is directly related to people's production and life. Therefore, the Chinese government has extremely strict requirements for the production and operation standards of drinking water enterprises. At the end of 2006, the Ministry of Health (2006) and other relevant departments completed the revision of the 1985 edition of the "Sanitary Standard for Drinking Water" and officially promulgated a new version of the "Sanitary Standard for Drinking Water" (GB5749-2006), which is stipulated since July 1, 2007.

This new document stipulates the testing indicators for drinking water, and only all indicators of the drinking water that meets the targets are available for people to use. At the same time, the document also stipulates the production and operation standard of drinking water supply enterprises and production enterprises, and requires the production hygiene conditions of enterprises to meet the standard before they can carry out normal production and operation activities.

As one of the five largest bottled water brand in China, CR Cestbon did not only plan the production process according to the requirements of the document, but also established a tourism supervision area for bottled water production areas. People are welcomed to visit the production line of the enterprise where they can supervise the production specifications of the company (Ying, 2018).

3.1.3 Ethical Responsibility

Corporate ethical responsibility means that although social economical and legal responsibilities imply certain ethical norms, the public society still expects companies to follow the ethical standards of the public that have not yet become law. These responsibilities are independent of the law, but are an ethical responsibility that a company must follow (Carroll, 2016).

The Kunlun Mountain mineral water owned by Jiaduobao is also one of the five giants of bottled water in China. However, during the period of 2010-2016, a number of netizens exposed the Kunlunshan mineral water arrears to college students in the social media or social forums. In order to expand the company's popularity, Kunlunshan Company hired Chinese university students to help them carry out promotional activities, and promised to pay wages after the event, but several college promoters did not receive wages or received wages far below the promised amount. The authenticity of this matter remains to be verified, and the author no longer makes too many comments here. However, from this incident, the author believes that for a large-scale enterprise, it is the responsibility and obligation of the company to pay wages to employees normally. If the company defaults on the wages of employees, it will not only lose the enthusiasm of employees, but also the lack of corporate ethical responsibility, which will greatly affect the brand's reputation (Huan, 2016).

3.1.4 Philanthropic Responsibility

Corporate philanthropic responsibility means that the society usually places some unclear expectations on the company. Whether or not to assume these responsibilities is entirely at the discretion and choice of the individual or the enterprise. This is a

completely voluntary act, such as charitable donations (Carroll, 2016).

In August 2016, the Kunlun Mountain Mineral Water (2016) held an activity called “Comprehensive Insurance for the Purchase of Accidental Injuries for the Elderly in Golmud City”. China's western development is relatively backward, and the mountain roads are rugged, which is extremely harmful to the elderly with limited mobility. The factory of Kunlun Mountain Mineral Water is located in Golmud City, which makes the company quickly notice this situation. The company donated to buy accidental injury insurance for all elderly people aged 60 and over in Golmud City, to improve the quality of life of the elderly and to protect the physical and mental health of the elderly in Golmud City. It is estimated that the donation will be about 500,000 yuan. This move reflects Kunlun Mountain Company’s philanthropic responsibility, which not only enhances the visibility of the company, but also demonstrates the company's determination to focus on China's public welfare.

Although it is not the largest bottled water company in China, CR Cestbon (2017) is the bottled water company that contributes the most to China's public welfare. Since 2007, CR Cestbon has launched the “Hundred Library” project, which aims to donate hundreds of public welfare libraries to primary and secondary schools in China's under-resourced areas. The project proposed the method of “replace a spare book with a bottle of Cestbon water” to encourage the citizens to donate idle books, give them to small and medium-sized schools, and jointly establish the China Resources Cestbon Library to pay attention to the growth of children in poverty-stricken areas. By the end of 2017, the project had donated 192 libraries in China. CR Cestbon is the public welfare benchmark for China's bottled water industry. The charity business has become the business card of the company, which not only demonstrates the philanthropic responsibility of Cestbon, but also has a high reputation for the expansion of the company.

3.2 Sustainability

According to the data of the 2017 China Statistics Bureau, the population of mainland

China accounts for 19.27% of the world's population. However, China's freshwater accounts for only 2.53% of the world's total fresh water. It means that China is a country where freshwater resources are extremely scarce. Therefore, China should make full use of water resources, that is, the sustainable development of water resources. In order to achieve this goal, Chinese government has also introduced relevant policy protection to improve the utilization of water resources.

In 2005, 'China Water Conservation Technology Policy Outline' formulated by National Development and Reform Commission of People's Republic of China (2010) to guide the development and promotion of water-saving technologies, promote water-saving technology, improve water efficiency and efficiency, and promote the sustainable use of water resources. This document starts from three major aspects: agricultural water, industrial water and domestic water. The requirements for water conservation have been put forward for all aspects of Chinese social life, and safeguard measures have been proposed to protect the document.

3.3 Privatisation of Water Resources

Due to world population growth, climate warming, industrial pollution and other reasons, global water resources have become relatively scarce, and water has increasingly become a resource of economic value. Therefore, the introduction of water into the market mechanism through pricing has become an effective way to manage water in many countries.

3.3.1 Arguments for Privatisation

For the privatization of water resources, the author believes that there are two advantages:

- **The privatization of water resources is conducive to improving the utilization of water resources.** Under the premise of ensuring water quality, the privatization of water resources will increase the water price appropriately, so that consumers can improve the utilization of water resources and reduce waste (Wei and Bo, 2014).

- **The privatization of water resources is conducive to ensuring the quality of public services.** In Latin America, for example, government bureaucracy and corruption caused by the government's independence have led to the lack of public services. The privatization of water resources will reduce government intervention and ensure the quality of public services to a certain extent (Peter et al, 2004).

For the privatization of water resources, the author believes that there are three disadvantages (Wei and Bo, 2014):

- **The privatization of water resources may reduce water quality.** After the privatization of water resources, the supervision of the state and the government is more difficult, and it is easy for some enterprises to reduce the water quality because of making profits.
- **The privatization of water resources may raise water prices.** In Cochabamba, Bolivia, for example, Bechtel controlled the city's water services, causing water prices to rise by 200%.
- **The privatization of water resources may waste water.** The price of industrial water is relatively cheaper than ordinary people. The privatized water supply company encourages industrial water consumption which is unnecessary waste.

3.3.2 Quality of Water vs Privatisation

The role of privatization of water resources on this issue will not be obvious for people concerned about water quality issues. Private water utilities rarely receive economic profits for solving problems associated with lowering certain pollutant levels. Moreover, the private sector has the power to misrepresent customers in response to problems that have already occurred. Therefore, maintaining a strong legal supervision mechanism is an indispensable organic component of water quality protection. When there is strong legal supervision, privatization can lead to improved water quality (Peter et al, 2004).

4. Conclusion

- **Most enterprises are aware of the corporate social responsibility.** From the early stage, they only pursue economic interests. Now, while paying attention to economic interests, they will also spend experience in ensuring the legal, ethical and philanthropic responsibilities of enterprises. Take China's private bottled water company as an example. Most companies have established public welfare funds or carried out public welfare undertakings, and have reached the philanthropic responsibility of the top-level enterprises in the Carroll Pyramid.
- **The sustainable development of water resources has become a hot issue all over the world.** The method of improving water resource utilization has attracted the attention of the whole world. In order to achieve this goal, various countries have issued relevant policies or documents, requiring individuals or enterprises to improve water resource utilization from all levels of society, and emphasize the importance of sustainable development of water resources.
- **More and more countries regard water resources as a kind of priced commodities, and the privatization of water resources has gradually emerged** due to the shortage of water resources. To a certain extent, the privatization of water resources can improve the utilization of water resources and ensure the quality of public services, but it may lead to lower water quality and higher water prices. Therefore, the privatization of water resources requires an analysis of comprehensive government supervision, corporate ethics, national financial resources and etc. After the analysis, the government decides whether the country will privatize water resources.
- **Undoubtedly, the privatization of water resources is the only way for the sustainable development of water resources and the future of water resources.** Governments need to strengthen the supervision and control of water resources enterprises, so that the privatization of water resources can truly become an excellent policy that benefits all countries.

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