

University of Reading, Department of Geography and Environmental Science  
University of Surrey, Centre for Environmental Strategy

# EVOLVING CORPORATE SOCIAL RESPONSIBILITY IN CHINA

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## **ABSTRACT**

Although the term corporate social responsibility (CSR) originated in the West, the idea also has deep roots in Chinese history and has been increasingly embraced by both corporations and policy-making agencies of the Chinese government. With a unique cultural background and fast economic development, China's adoption of CSR has become the center of discussion worldwide, and its successful implementation will have great significance for global sustainability. This paper aims to explore how CSR has given way to economic growth in China since the start of economic transition and its cultural and historical background, and how this has affected or been affected by the economic performance of firms. Thus the recent calls for China to adopt CSR in its industries follow a period where the country arguably had one of the strongest implementations of CSR approaches in the world. This transition is considered in the context of a case study of a Chinese state-owned enterprise (SOE) and a group of small private firms in the same industrial sector in Zhengzhou City, Henan Province over a time span of 8 years. Stakeholder's views as well as secondary evidence are considered. Results indicate that China's reform has deeply affected the CSR in the country. While the CSR of the SOE has been steadily decreasing along with the change of ownership structure, its economic performance did not improve as expected. On the other hand, with a steady improvement in economic performance the small private firms are showing a great reluctance to engage in CSR. Other factors that have influenced CSR are also explored. The results raise the question as to whether CSR is a universal concept with a desired means of implementation across the developed and developing world, or whether it is possible for the developing South and economies in transition to have their own approach to implementing CSR.

**Key words:** Corporate Social Responsibility, economic performance, China

## **1. INTRODUCTION**

Corporate Social Responsibility (CSR) recognizes that corporate growth and profitability are important, but it also requires a firm to pursue societal goals such as environmental protection, social justice and equity (Wilson, 2003; Moon, 2007; Lee, 2008; Bazin, 2009; Weyzig, 2009). CSR is in effect the response of firms to the clarion call for sustainability that gathered pace during the 1990s although it is perhaps ironic that some have argued the origins of CSR rest more with the Cold War of the 1950s and a sense of what comprises a 'good society' rather than any rise in societal interest towards the environment (Spector, 2008). Indeed there are those who decry such efforts by companies to take on a more socially responsible face (Pava, 2008) and some have even argued that CSR is an oxymoron (Kallio, 2007; Caterina and Lorenzo-Molo, 2009; Devinney, 2009). Others have suggested that CSR could be used to mislead investors (Aras and Crowther, 2009). CSR poses a challenge to the traditional mindset of business operation, which slavishly seeks profit above all other goals. Increasingly corporate performance is judged not just by the services, products and profits a business makes but also by the impacts it has on social well-being and on the local and global environment. Rising public pressure highlights issues related to human rights, and the impact of globalization has

forced the business world to take a close look at sustainable development, particularly in terms of its social and environmental aspects.

China's economy has grown remarkably since its adoption of market-oriented reforms. According to the World Bank (2013), China's GDP grew at an average annual rate of 10% between 1980 and 2012. Although some argue that China is a phenomenally successful economy that will continue to grow (Ho et al., 1998), the uneven development in political and cultural spheres has caused many concerns within the country. The demands of the free market have produced a wave of social disinvestment by companies, which have cancelled their social welfare programmes such as emphases on long term and stable employment, company provided education and health facilities. The resulting decline in CSR in China and the increasing inequalities caused by growth have exacerbated inequalities between urban and rural areas, between the coastal and the inland regions, and between the new entrepreneurs and the rest of the population. Moreover, millions of urban immigrant workers labour under poor occupational health and safety (OHS) conditions and large numbers of urban residents have been laid off from SOEs and remain unemployed and impoverished. Product safety has been downgraded by profit driven producers. In addition, China has one of the worst pollution problems on the planet: in fact it has overtaken the US as the biggest carbon dioxide emitter since June 2007 (Vidal and Adam, 2007).

The balance between firms' economic performance and their wider responsibilities is becoming an urgent issue in China under the new market economy. As the driving force of economic growth, Chinese firms need to be more proactive in establishing this balance. Furthermore, with China's membership of the WTO and the country's increasingly important role in the global economy, the CSR of Chinese firms is likely to determine their ability to fully participate in international business networks, and to become a respected customer, supplier and business partner.

This discussion paper explores how CSR has been affected by economic growth in China during the transitional period, and investigates the cultural and historical reasons for this. The paper will first present a brief literature review as to what is already known about this topic. The literature on CSR is, of course, extensive and cannot be given full justice in a paper as short as this. Instead the focus is specifically upon CSR in an Asian-Chinese context. In addition, the paper presents the results of a case study of a Chinese state-owned enterprise (SOE) and a group of small private firms in the same industrial sector in Zhengzhou City, Henan Province over the time span of 8 years. Stakeholder's views as well as the secondary evidence available from these companies are considered. The case study provides a microcosm of the broader changes and pressures seen in CSR in China with the rise of a market-driven economy.

## **2. LITERATURE REVIEW**

### **2.1 Economic performance and CSR**

Many companies have started to include CSR in their company strategies, and various reasons have been given for this including the claim that it is simply good for business. But will CSR help or hinder a firm's economic performance (EP), which is arguably its first priority? The relationship between a

firm's CSR and its EP has become a focal point for discussion in the academic literature spanning management strategy, economics and politics. Understandably, firms are interested in whether increased investment in CSR will enhance their EP although the published research to date suggests there are no simple answers to this question (Cochran and Wood, 1984; Carroll, 1999; McWilliams and Siegel, 2001). There is evidence that the adoption of CSR by a company does make a difference to its 'bottom line' (Smith and Langford, 2009; Vanhamme and Grobben, 2009), but that difference could be both positive and negative.

Preston and O'Bannon (1997) developed a useful typology for the various hypothesised linkages between CSR and EP which span three positive and three negative relationships. McWilliams and Siegel (2001) added to this by suggesting a seventh type: a neutral relationship between CSR and EP where one does not influence the other. The seven hypotheses are summarised in Table 1 and there are various cause-effect mechanisms potentially at play here. For example, the 'available funds' hypothesis argues that a company with good EP is better able to afford CSR and to see further economic possibilities in engaging in CSR. Hence a good CSR performance may be the product of a company that is more imaginative, well managed, forward thinking and innovative. There is potential for a feedback loop as engaging in CSR could also help promote market innovation and better employee motivation (Becchetti et al., 2008; Vilanova et al., 2009). Hence better CSR performance could also enhance efficiency in production and/or service delivery (Ambec and Lanoie, 2008) as well as generate a good image and thus reap dividends (the 'positive synergies' hypothesis). Moskowitz (1972; page 71) argued that a '*socially aware corporation possesses the special sensitivity that will enable it to surpass competitors*'. Preston and O'Bannon (1997) employed data from a variety of sources and found strong evidence that good EP either precedes or is contemporaneous with good CSR, and their results supported two of the hypothesized positive relationships in Table 1; the 'positive synergies' and the 'available funds' hypotheses. Other studies that have found a positive link between CSR and EP are those of Lo and Sheu (2007), van Beurden and Gossling (2008), Chang and Kuo (2008) and Shen and Chang (2009).

**Table 1. The extended typology of the economic performance (EP) and Corporate Social Responsibility (CSR).**

The arrows in the table indicate a cause-effect.

Category	Hypotheses	Causality
Positive	<i>Social impact</i>	Higher (lower) CSR → higher (lower) EP
	<i>Available funds</i>	Higher (lower) EP → higher (lower) CSR
	<i>Positive synergy</i>	Higher EP ↔ higher CSR
Negative	<i>Trade-off</i>	Higher (lower) CSR → lower (higher) EP
	<i>Managerial opportunism</i>	Higher (lower) EP → lower (higher) CSR
	<i>Negative synergy</i>	Lower EP ↔ lower CSR
Neutral	<i>Supply and demand</i>	No causality

Source: Preston and O'Bannon (1997) and Salzmman et al. (2004).

By way of contrast, the 'trade-off' hypothesis asserts that any social and environmental responsibility will inevitably incur an economic cost, and hence will result in poorer EP. Lopez et al. (2007),

exploring the adoption of the Dow Jones Sustainability Index (DJSI; one kitemark designed to include various CSR components), suggest that the expense involved in making the required changes places companies at an economic disadvantage, at least in the short term, compared with companies that do not adopt. In an older yet classic study, Vance (1975) investigated the EP of firms identified as having high and low levels of CSR and found a negative relationship between EP and CSR; thereby concluding that socially responsible firms were not good investments.

The ‘negative synergy’ argument also points to a negative relationship between CSR and EP but sees this as a complex two-way relationship.

The neutral hypothesis is posited by McWilliams and Siegel (2001) and confirmed by Fry and Hock (1976), who suggest that there was no obvious relationship between CSR and EP of firms although they did find that a firm’s size and the public image of the sector in which the firm operates were important determinants of their CSR image. Griffin and Mahon (1997) carried out a study of the chemical industry and arrived at similar results.

The literature therefore indicates that there is empirical evidence for all of the seven possibilities set out in Table 1 and there is little consensus as to which of them is most prevalent and why (Cochran and Wood, 1984; Ullmann, 1985; Pava and Krausz, 1996; Zhang, 2007). How can this inconsistency be interpreted? Becchetti et al. (2008) suggest that CSR-EP studies have provided partial rather than full pictures as each inevitably has its own set of circumstances such as number/scale/nature of the companies, the country context in which they are embedded, measures of CSR and EP, the analytical method used, etc. For example, much can depend upon how CSR performance is measured. Choi et al. (2010) used a sample of 12 firms in South Korea during 2002-2008, and found a mixed relationship between CSR and EP; a positive relationship between EP and the stakeholder-weighted CSR index, but no relationship between the EP and the equal-weighted CSR index. The relationship between CSR and EP may also be dependent upon where in the firm’s cycle it is assessed. Thus it is possible that there is a non-linear relationship between EP and CSR, with EP being negatively related to CSR in the beginning (when the costs of CSR have been incurred but the returns are not yet flowing) while over time CSR has a positive effect on EP (when the impact of CSR on profits begins to show). Note also that this implies that in the early stages the relationship is from EP to CSR whereas in the later stages of the firm’s life cycle, the relationship is from CSR to EP. For example, Moore (2001) looked at the UK supermarket industry and found that CSR was negatively related to EP for a given period, but did find that prior-period EP was positively related to subsequent CSR performance.

## **2.2 Other affecting factors of CSR**

As early as 1976, Fry and Hock found an interesting relationship between firm size and the emphasis given to social responsiveness; the bigger the firm, the more space in its annual report that is allocated to CSR. CSR studies before the second half of the 1990s focused mainly on the relationship between EP and CSR. Firm size, measured by sales volume and total assets, was only considered as one of the EP indicators. Some US scholars during the 1990s started to look at the firm size effect on CSR or

solely on environmental responsiveness. Table 2 shows the diverse results on the effect of firm size on CSR. Some of the studies indicate a positive relationship between firm size and CSR: the larger the firm size, the more responsible it is. Fombrun and Shanley (1990) researched firms' interactions with their public by studying 292 large USA firms included in Fortune's 1985 study of corporate reputation. They obtained the reputation listing from the Fortune reputation index and EP data from the COMPUSTAT database. They found that larger firms had a higher value of corporate reputation index. Hence they concluded that larger firms would also have a higher level of corporate social performance. Their conclusion was also supported by Pava and Krausz (1996) who examined the long-term (4-6 years) EP of a group of 53 U.S. firms which had been identified by the Council on Economic Priorities (CEP) as being socially responsible, and compared the EP of this group with a control sample. The 53 firms represent a diverse range of companies. They found that the socially responsible firms in their study were significantly larger than the socially non-responsible control group. In the UK, Moore (2001) also found a strong positive association between firm size and social performance in 8 firms in the UK supermarket industry. As for the reason for this positive size to CSR relationship, Russo and Focuts (1997) thought that larger firms are likely to have more resources which will facilitate the socially and environmentally responsible activities. Henriques and Sadorsky (1996), on the other hand, think that larger firms receive more attention from the public, which may encourage or force the firm to be socially responsible. McWilliams and Siegel (2001) argued that:

*“when scale economies exist, large firms will have lower average costs for providing CSR attributes than small firms.”*

Lepoutre and Heene (2006) reviewed previous research on the company size - CSR relationship in the context of small businesses. They conclude that the small business context does impose barriers in terms of taking on social responsibility. But the authors also elaborate the opportunities and their constituents for small business to overcome these constraining barriers.

**Table Error! No text of specified style in document. Listing of studies on firm size effect on CSR and their results.**

Relationship	Country of study	Type of study
<b><i>Positive effect (the larger the firm size, the more responsible it is)</i></b>		
Fry and Hock (1976)	US	Empirical (multi sectors)
Fombrun and Shanley (1990)	US	Empirical (multi sectors)
Henriques and Sadorsky (1996)	Canada	Empirical (multi sectors)
Pava and Krausz (1996)	US	Empirical (multi sectors)
Russo and Fouts (1997)	US	Empirical (multi sectors)
Stanwick and Stanwick (1998a)	US	Empirical (multi sectors)
McWilliams and Siegel (2000)	US	Empirical (multi sectors)
Sharma (2000)	Canada	Empirical (Oil and gas)
DEFRA (2001)	UK	Survey
McWilliams and Siegel (2001)	US	Theoretical study
Moore (2001)	UK	Empirical (supermarket)
Brammer and Millington (2006)	EU	Review
Elsayed (2006)	UK	Empirical (multi sectors)
<b><i>Negative effect (the smaller the firm size, the more responsible it is)</i></b>		
Stanwick and Stanwick (1998b)	US	Empirical (chemical companies)

Lepoutre and Heene (2006)	Belgium	Review
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***No significant effect of firm size on responsibility***

McGuire et al. (1988)	US	Empirical (multi sectors)
Roberts (1992)	US	Empirical (multi sectors)
Waddock and Graves (1997)	US	Empirical (multi sectors)
Rojsek (2001)	Slovenia	Empirical (the most environmentally unfriendly industries)
Orlitzky (2001)	Australia	Review

Note: DEFRA: Department for Environment, Food and Rural Affairs.

Other studies show evidence that firm size has no effect on CSR. For example McGuire et al. (1988) studied data covering the period of 1983 – 1985 of 98 U.S. firms. Similar to many other U.S. authors, they used social responsibility data from the *Fortune* reputation index, and economic data from COMPUSTAT. They found a non-significant positive correlation between social responsibility and total assets, while Waddock and Graves (1997) found a non-significant negative relationship using three different measures for firm size (total assets, total sales and total number of employees). Rojsek (2001), however, concluded that there is no significant difference between small and large firms in their perception of obstacles that affect environmental performance. Interestingly, Stanwick and Stanwick (1998b) found that small firms are more environmentally responsive after their initial conclusion that firm size affects CSR positively (Stanwick and Stanwick, 1998a).

Some CSR researchers have turned their focus on people, especially manager’s attitudes toward CSR (Bowman 1977; Cruz Déniz-Déniz and Garcia-Falcoa 2002; Holmes 1976; Marz et al. 2003; Posner and Schmidt 1992; Quazi and O’Brien 2000). Jaffe and Tsimerman (2005) and Rojsek (2001) researched the attitude of managers in transitional economies of Russia and Slovenia. Shafer et al. (2007), however, compared the attitude of American and Chinese managers toward the CSR of firms. Holmes (1975) conducted empirical research to find out how company executives perceive how their own opinions and their firms’ attitude towards social responsibility have changed in the five year period before the research was conducted (1970-1975), and whether the opinions and attitudes are expected to change in the future. Questionnaires were designed to cover the following areas:

1. The perceived positive and negative outcomes of the firm’s involvement in social activities.
2. What is the determinant factor of the area of social involvement?
3. The perceived relationship between the economic condition of the firm and the level of corporate social responsibility.
4. Whether business can be a major force in solving social problems.

The sample was chosen from firms listed in the 1974 *Fortune* directory of the 500 largest industrial corporations plus the 50 largest firms in each of the following categories; commercial banking, life insurance, diversified financial, retailing, transportation and utilities. A total of 560 firms were randomly selected from these 800 firms and were also proportionately selected from each of the

categories. Questionnaires were sent to the top executives of the 560 firms, and the response rate was 34%. The data were processed by frequency analysis, and the results indicate that:

- Executives' opinion of the social role of the corporation has changed in the past five years. More of them believe social involvement is necessary for firms even if this reduces the short-term profit and makes the long-term return less likely.
- All executives believe that CSR will help to improve the reputation of their firm, so social activities will bring more positive than negative outcomes.
- It is perceived that the firm is happy to satisfy the social needs that match the firm's skill, need and ability to help. The seriousness of the social need also needs to be considered as another factor which affects the firm's willingness to help.
- Most executives think that socially responsible activities were just partially decided by the economic condition of their firms and that they can offer help if society requires it.

Holmes's findings are similar to those of Bowman (1977), Cruz Deniz-Deniz and Garcia-Falcoa (2002), Posner and Schmidt (1992), and Shafer et al. (2007). Salzmann (2004) considers these managers' attitude to CSR as "*unexpectedly proactive*", and he thinks the reason for this is a "*social desirability bias*" (p30). Jaffe and Tsimmerman (2005), on the other hand, employed a similar methodology in a country in Transition – Russia – to try to find out future manager's concerns for the social responsibility of firms. The authors surveyed 100 business students in three Moscow universities, and found that the future managers of Russian firms have a more negative attitude towards ethical behaviour than those of current managers. They also found any significant difference in view between students who had attended an ethics course and those who had not.

Contrary to the unanimity of future Russian managers' attitudes, Shafer (et al., 2007), after examining the perceptions of MBA students to CSR in US and China, found that Chinese managers are contradictory in their view of what is more important – shareholder's interests or corporate ethics and CSR. On the one hand, Chinese managers strongly agree that profit and business survival is more important than social responsibility and their shareholder's interests are above any other business objectives. On the other hand, they also agree that CSR is very important for the long-term survival of the business, and consider social responsibility above making short-term profit. More interestingly, the Chinese managers agree that CSR is incompatible with profitability. However, by comparing the views of Chinese manager's to those of American manager's, Shafer (et al., 2007) found that nationality does not have a consistent impact on managers' view about corporate ethics and corporate social responsibility.

It seems that the results of earlier work (mostly from the US) on manager's views of social and environmental responsibility were consistent – positive and proactive - but the work later on, especially the work on developing countries has not arrived at a consistent conclusion. Clearly more work is required on CSR in developing countries and transitional economies to clarify this situation. In addition, another characteristic for companies in transitional economies needs attention - ownership. Is the ownership an influencing factor for CSR? Thus despite the large volume of studies that have explored CSR there are still important gaps that need to be addressed.

- a) The views of the wider range of stakeholder's have been ignored in most of the existing research. The data source of most existing CSR studies are those of expert evaluations (i.e. Fortune), company annual report and relevant documents, and some data from relevant organizations.
- b) Some of the research that does take into consideration the wider views of stakeholder's tends to employ a tick-box approach (closed question) where interviewees can only choose from a limited number of choices. Such an approach is limited in terms of allowing interviewees to express their opinions.
- c) Even in the research using the tick-box approach a majority of the studies just consider the firm manager or owner's viewpoint. The perceptions of other employees are usually not considered.
- d) Studies have tended to be based on more quantitative methodologies rather than qualitative ones. But many aspects of a firm's CSR such as the employees' loyalty and different stakeholder's views of the firm's social and community contribution are hard to measure quantitatively.
- e) Few CSR studies focus on new emerging economic powers such as China and this is a gap that needs to be filled. In addition, the differing CSR practices of both state-owned enterprises and the non-state sectors within such countries needs to be given full attention.

Hence this discussion paper aims to address the above gaps by exploring how CSR has been affected by economic growth in a transitional economy, China, and the cultural and historical reasons behind the CSR-EP trade-off.

### 2.3 CSR in China

Although it is widely accepted that the modern concepts of CSR stem largely from work in North America during the 1960s, the history of CSR in China goes back a long way. Some Chinese scholars believe that the underlying concepts of CSR can be seen as early as 2500 years ago in the era of the *Spring and Autumn* (Liu, 1995). The concept of CSR, in the Chinese context, has much to do with the Confucian virtue of *Yi* which means righteousness: using the principles or norms of obtaining and distributing benefits (Lu, 1997). Opposite to *Yi* is *Li* which means the benefits and profits themselves. The relationship between *Yi* and *Li* can best be described by the Confucian view that a person of noble character understands *Yi*, while a lower person only knows *Li*. A businessman with *Li* character just pursues short-term profit and self-interest, while a *Yi* businessman considers longer-term and broader gains. So in this respect, this Chinese ancient philosophy of CSR (*Yi* rather than *Li*) can be interpreted as being ethical rather than simply profit-oriented, a value that is reflected in the western CSR theory. However, there is a crucial difference because in the Chinese context, *Yi* requires not only acting and behaving in the right way but also following the given social hierarchy; for example the son obeys the father, the wife obeys the husband, the younger brother obeys the elder brother, and the inferior obeys

the superior. So adapted into Chinese context, historical CSR in China can be seen as:

*“traditional Chinese paternalistic notions of the superior bestowing approval, protection and favour upon his inferiors.” and ‘the Chinese tradition of leaders educating the people by performing as role models for righteousness”*

Jensen (2006, 19).

In practice, CSR in China has always been the “*ideological and political work*” of the administrative departments (Jensen 2006, 13). The Chinese government has frequently used awareness campaigns to promote corporate social responsibility, for example, by holding meetings and displaying slogans such as “*serve the people*” and “*socialist spiritual civilization.*” “*Harmonious society*” is one recent slogan that was introduced in 2004 at the Fourth Plenum of the Chinese Communist Party (CCP), 16th plenary meeting, and it was further confirmed by the 18<sup>th</sup> plenary meeting as one of the objectives of China’s socialist reform.

The evolution of CSR in modern China is linked to economic reform and can be divided into two periods:

1. The socialist planned-economy period (1950–1978)
2. The transitional period (after 1978) when China launched its transformation from a socialist planned economy to a socialist market economy.

However, as China’s economic reform did not officially target marketization before 1992 when the 14<sup>th</sup> Congress of CCP was held, the second period can also be divided into two: 1978 to 1992 and 1993 to the present.

In the planned economy, the notion of sustainability had an important place. In 1955, Chairman Mao Zedong called for green policies because they would benefit agriculture, industry, and other aspects of society (Li, 2010). Equality and social justice were also among China’s objectives during the Mao era (Li and Fan, 2006). The slogan “*serve the people,*” introduced by Mao when the People’s Republic of China was first established, called for state organizations to be socially responsible. As the representatives of the state, the state-owned enterprises (SOE) were to serve the people from cradle to grave, employing people for life and providing employees and their families with comprehensive welfare such as free accommodation, education, medical services, cheap food and so on. Workers’ rights were central, and during this period, CSR in both urban and rural areas was very high (in rural areas, peasants were well looked after by their communes). During this period, CSR was strongly politicized due to the socialist nature of the enterprises, and obeying state orders and serving the employees were central concerns for socialist enterprises. CSR at that time was a political responsibility.

Economic reform began to affect SOEs around 1984 (Wu, 2003), and CSR followed the same pattern as the planned economy period. According to the 1999 *China Statistical Yearbook*, 17,000 schools in

China in 1998 (30% of the total) were run by SOEs. These schools taught more than 7 million students and employed 626,000 staff. Apart from investment in school infrastructure, SOEs spent 6.4 billion Yuan (\$773 million) annually to keep the schools running. In the same year, one-third of the medical services in China (approximately ninety-one-thousand institutions) were also run by SOEs, and the total yearly expenditure was 3.1 billion Yuan (\$37 million). From 1985 to 1992, the government tried various measures to reform the SOEs without eliminating state ownership, but these reforms failed.

Learning from previous experiences, the 14<sup>th</sup> CCP plenary meeting in 1992 called for ownership reform. The state started to downsize and withdraw from direct economic management. Private firms were allowed to exist and grow, and SOEs were permitted to pursue their own interests. Profitability became the primary goal of firms. A survey of 210 SOEs in China reported on corporate objectives (Ma, 1992). Of these, 45.7% chose high profits as their first objective, 24.7% chose growth, and 9.8% chose increasing market share, while only 2.6% regarded increasing employees' income as their first objective.

Changes in the role of the state and to the objectives of the firms have resulted in large changes in CSR. The most significant of these was the elimination of the cradle-to-grave welfare provision enjoyed by workers in SOEs. Health and education services largely shifted from a state-payer to a user-payer principle, and this resulted in inequality of access. Indeed, in many remote rural areas, people cannot afford medical services or education. In 1997, following the state policy of "*invigorating large firms while relaxing control over the small ones*" (*zhuda fangxiao*), many small SOEs went bankrupt. According to the 2001 *China Statistical Yearbook*, from 1998 to 2000, 21.4 million people were laid off by SOEs. These workers became the new urban poor who struggled to find jobs in the increasingly market-oriented environment, and this caused widespread social unrest. Labor protests have increased sharply in frequency and severity. The state has been attempting to address these issues through a variety of social security programs, but this effort has only partly alleviated the situation due to the limited access to and the misuse of the social security fund, attributed to inadequate laws, lack of transparency, and inadequate public supervision (Xinhua News Agency 2010).

Low levels of CSR has also been reflected in the worsening labour standards in China. A report on child labor in Chinese firms that produced licensed goods for the 2008 Beijing Olympic Games helped bring China's poor labor practices into the spotlight. It was reported that children as young as twelve were hired to produce Olympic merchandise by firms in China's Guangdong Province. Undercover researchers working in the firms reported that adult workers were paid half the legal minimum wage, and that children doing the same jobs were paid even less. Both children and adults worked up to fifteen hours a day, seven days a week. It was also reported that workers were instructed to lie to inspectors about their wages, health, and safety conditions, and that anyone who told the truth was fired (Taylor 2007). Researchers have uncovered poor labor practices at many Chinese suppliers to international corporations, and even Apple Corporation has admitted that some of its Chinese suppliers use child labor (Apple.com, 2011). At Foxconn, one of Apple's long-term contractors, high stress and long working hours contributed to the suicides of thirteen workers (Reuters 2010). According to the *Nike Corporate Social Responsibility Report FY 07 08 09*, more than 20% of Nike's original equipment manufacturers have asked their employees to work sixty hours or more per week (Nike n.d.). The National Labor Committee (NLC) in the United States claimed that Dongguan Kunying

Computer Goods Company, a Chinese supplier for Microsoft, employed hundreds of child laborers and asked them to work long hours; one worker was found to work a thirty-four-hour shift at the pay rate of sixty-five cents per hour. According to the NLC, Dongguan Kunying forbids its workers to talk to each other, to listen to music, or even to use the toilet during working hours. A management consulting company listed seventeen poor labor practices on their website, including child labor, illegal restriction of personal freedom by taking workers' ID documents, enforced overtime, low wages, bad accommodation, and poor workplace health and safety conditions (Wohua Consulting, 2012). Some Chinese companies continue to use toxic substances without adequate safety measures. Cadmium, for example, is strictly regulated in Western countries but still widely used in China (*Shanghai Daily* 2008).

Chinese labor laws give workers the right to form unions, and by law all companies that have more than one hundred employees are required to have unions, but it is estimated that only a little over 60% of companies in China have such unions (Hays, 2008). Even those unions that do exist are arms of the state controlled by the CCP. The unions do not negotiate contracts and do little in the way of the traditional union activities seen in Western countries, such as lobbying for better wages and better working conditions.

Consumer product quality problems revealed in recent years are another concern related to CSR. Some food companies, for example, have taken advantage of weak enforcement of regulations by blending fake ingredients into products, signing contracts agreeing to produce one product only to switch the raw material to something cheaper later on, and coloring food to make old and stale food look more appetizing (Zhang et al., 2013). In 2008, around three thousand children fell sick and at least six died from drinking tainted milk, and this scandal led to a worldwide recall of Chinese dairy products. However, lessons were not learned from this event and in 2011 the Chinese government quality watchdog found that some products of Mengniu, China's biggest dairy firm, contained aflatoxin, a substance produced by a food fungus that can cause severe liver damage, including liver cancer.

Weak enforcement of regulations has also led to extreme abuse of intellectual property rights, and virtually any product can be copied. China is the origin of many counterfeit products and other forms of stolen intellectual property rights.

From an environmental perspective, China's high economic growth rate in recent years has been at the expense of massive energy consumption and extensive resource and capital investment. China is the world's second largest energy consumer after the United States (Fredriksen 2006). In 1980, China consumed approximately 1.8 million barrels of oil per day, and this rose to approximately 6.4 million barrels per day in 2004—an increase of more than 250%. In aggregate terms, China is the world's number-one emitter of carbon dioxide (CO<sub>2</sub>), one of the most abundant greenhouse gases, so China's environmental issues are not just a domestic concern (Auffhammer and Carson 2008). While some progress in improving energy efficiency and reducing CO<sub>2</sub> emissions has been made, 75% of China's energy production is still dependent on coal. Meanwhile, demand for automobiles is growing quickly, and respiratory illness and heart disease related to air pollution are the leading causes of death in China. According to the China National Environment Monitoring Council (CNEMC, 2013), there were more than 20 days in January 2013 when air quality was below the standard in Beijing. Nair et

al. (2013) estimated that outdoor air pollution contributed to 1.2 million premature deaths in China in 2010, nearly 40% of the global total. To mitigate environmental degradation, the Chinese state has put in place several environmental laws and policies, but because of lack of enforcement, these actions have not improved the situation significantly.

Overall, therefore, there seems to be a low sense of responsibility in China, and increasing profit rates seems to be driving most firms. Although the situation can be explained by China's unique culture and stage of development, the country has been criticized for its lack of corporate social responsibility and is under increasing pressure to improve.

With China's membership of the WTO and its' increasingly important role in the global economy, China is facing more scrutiny with regard to CSR. Several emerging initiatives suggest that CSR is gaining more importance and publicity in China, for example:

1. ***Emergence of International NGOs who help push CSR within China.*** The Chinese government has established a few public charitable organizations in the past 20 years, such as the Chinese Children and Teenagers' Fund (1981), Project Hope (1989), the Poverty Alleviation Foundation (1989) and the China Charity Federation (1994). Although it has been argued that these organizations are fundraising mechanisms for government (Young, 2002), they have made great contributions in securing substantial private funding. Some non-governmental grassroots organizations (NGOs) have emerged since 2000, such as Amity Foundation, the Chinese Christian Service Organization and the YMCA (Young Men's Christian Association). According to China Development Brief, there are over 200 international NGOs operating in China in 2011. These non-public NGOs were discouraged a few years ago by the government organizations who were supposed to be responsible for the relevant areas, but gradually any hostility decreased partly because these NGOs have provided services effectively and efficiently.
2. ***Low corporate charity donation and trust crisis that is hindering the CSR process.*** As part of CSR, corporate donation has remained low in China and the reason for this is the trust crisis. Statistics from the Ministry of Civil Affairs showed that in 2005 total charity donations in China formed less than 1% of the gross national product (China GNP in 2005 was USD 1529 billion) (Mackey, 2005). In contrast, in 2006, Americans donated USD 295 billion (Thomas, 2007) which accounted for 2.6% of its GNP. In addition, Mackey (2005) reported that less than 1% of China's 10 million firms had any record of donation. Recent scandals have inhibited corporate charity donations in China—a well-known incident relates to a young woman named Guo Meimei who claimed online that she was the general manager of a charity organization and posted pictures of herself with a luxury car and leather bags. According to the China Charity and Donation Information Center, donations were halved immediately after this and other scandals were publicized.

***Optimism—the State is incorporating corporate social responsibility into their policy making.*** The slogan “*harmonious society*” was introduced in 2004, and was followed in 2007 by President Hu Jintao's call at the CCP 17th Plenary meeting for Chinese firms to take on socially responsible roles. This provided official support for the concept of corporate social responsibility by China's politicians. Up to 2008, all publicly listed companies in China were required to publish corporate social responsibility reports along with their annual reports. Related laws and regulations such as Corporate Law, Labor Law, and Environmental Protection law were issued and improved. Chinese consumers,

like their counterparts elsewhere in the world, have become more aware of their rights and are increasingly calling for businesses to be accountable. Chinese media and other propaganda organizations have begun to challenge the accountability of companies. Such an atmosphere has fostered an optimistic outlook for China's growth sustainability. For many Chinese companies, corporate social responsibility offers an opportunity to change and hence to raise their visibility, profile and brand internationally. Moreover, corporate social responsibility might help firms to improve their business practice standards, hence benefit their employees, consumers and the international business community.

### **3. CHARTING THE CHANGES IN CSR IN CHINA: A CASE STUDY**

#### **3.1 Introduction**

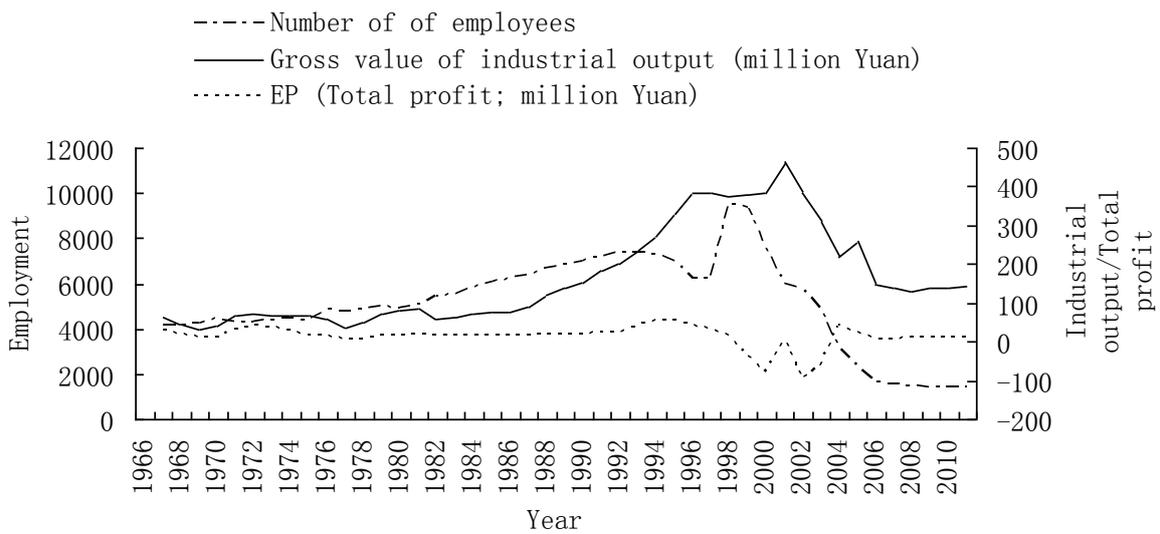
While the previous section discussed the broader changes in CSR that took place in China with the transition towards a more market economy the breadth of the topic and in particular how people were impacted can be difficult to grasp. After all, China is a very large country in terms of its population, area and range of economic activity. Hence a case study has been included to bring out some of this change within just one company. Its story presents a microcosm of the bigger picture.

A company referred to here as ZZAC was selected as the basis for the case study because it is 'representative' of many of the large SOEs in China. It was also accessible because one of the authors once worked in the company for a number of years. This was crucial because some of the information being collected could be viewed as sensitive, and for cultural reason Chinese people are hardly open to strangers even when the topic is not sensitive, hence it was therefore necessary for people to feel that the researcher was somebody they knew that was trustworthy. As the first abrasives firm in China, and indeed the biggest of its kind in Asia, ZZAC was established in the 1950s in Zhengzhou City of central China (see Figure 1) with support from the central government in both financial and human resources. It grew continuously before the SOE reform in 1984 and managed to maintain this momentum in the first few years of the reform. It benefited from the state's reform policy i.e. 'zhuada fangxiao', and became a public listed company in 1993. At its peak in 1997, ZZAC employed 9549 individuals. Its output reached a peak of 463 million Yuan in 2000. However, despite this increase in output until 2000, total profit (pre-tax profit) has fallen since 1994, and so does the employment level (see Figure 2).

Like all other SOEs in China, ZZAC, under the planned economy, was an 'iron-rice-bowl' to its employees. Apart from providing a job for life, it also provided 'cradle to grave' services for its employees and their families, including nursery, primary and middle school education to employees' children, professional training to employees in service and future employees (many of them were children of current employees of ZZAC), housing facilities, cafeteria, hospital, community recreation facilities, etc. But, the market reform of the SOEs in China increased competitiveness in the sector, leading to a change in the objectives of firms like ZZAC from facilitating full employment and social stability to increasing economic efficiency.



**Figure 1. Geographical location of the case study**



**Figure 2. The change of gross value of industrial output, total profit and employment of ZZAC (1966-2010)**

In addition to increasing competition in the large SOE sector, the market reforms in China also created a dynamic, privately owned small firm sector. Any ‘case study’ based analysis of CSR therefore has to consider what was happening both within large firms but also within the increasingly important small firm sector that began to exist side-by-side with the large firms. To study this, we selected four small private factories (PAFs) operating within the same industrial sector as ZZAC. These firms produced various types of abrasive and grinding products (of varying levels of technology), and owners of these PAFs are previous ZZAC employees. As with the multitude of similar factories in China, the PAFs have been the driving force of China’s growth over the last two decades. However, they have received less support from the government and banks than the SOEs. Many of these small private sector firms struggle to obtain adequate finance. Table 3 describes the general situation of the four PAFs that were chosen specifically because one of the authors had good links with these firms. Their locations are indicated in Figure 3.

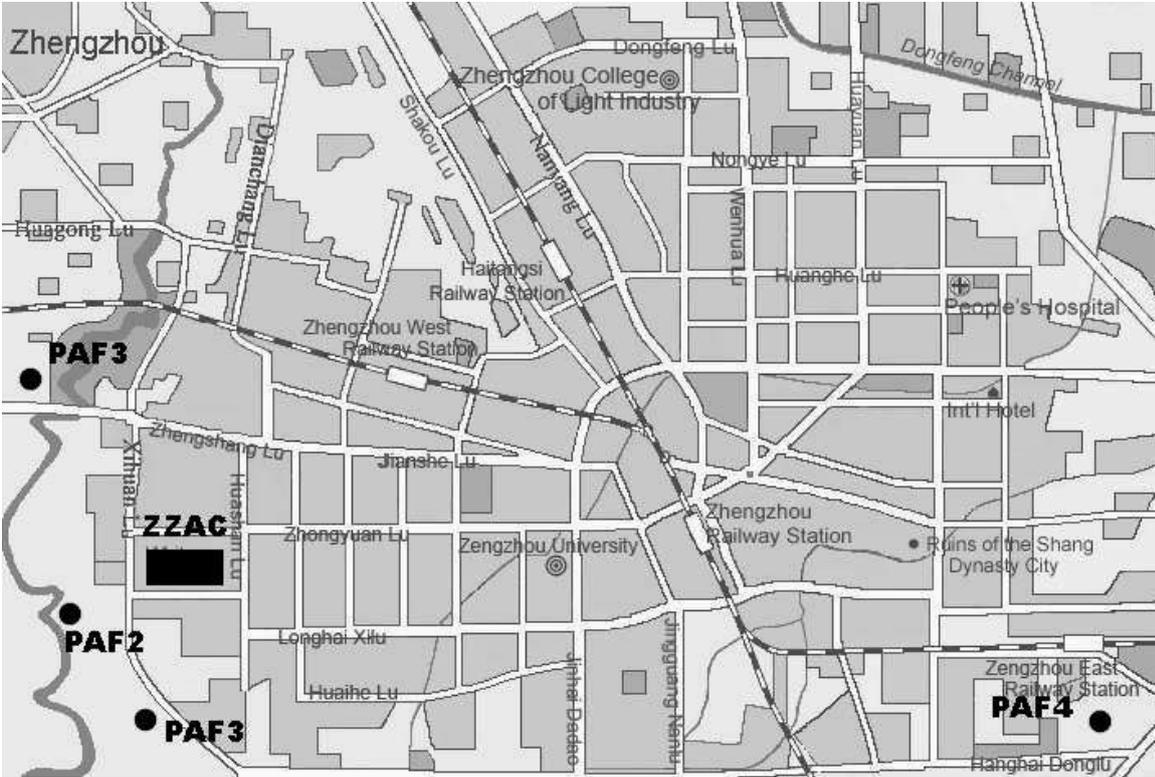


Figure 3 Location of ZZAC and PAFs in Zhengzhou

**Table 3 Summary of the four Private Abrasive Factories (PAFs) included in the research**

Code	Year of establishment	Number of employees		Manager's educational level	Origin of the managers	Main products
		2005	2010			
PAF1	1991	25	25	Primary school	Retired ZZAC employees	Small cutting wheels
PAF2	2000	15	15	Middle school	Redundant former ZZAC employees	Special shaped grindings
PAF3	2003	35	60	University	Redundant former ZZAC employees	Grinding materials
PAF4	2000	12	120	Masters	Resigned former ZZAC employees	Replicas of imported grindings

**Table 4 Summary of the survey and interviews undertaken in the research**

Category of stakeholders	Sample size	Sampling method	Questionnaire survey	
			Responses	Response rate (%)
ZZAC Current employees	123	Representation across the divisions of ZZAC	116	94
ZZAC redundant former employees	53	Residential area and accessibility	46	96
ZZAC senior manager	22	Accessibility	5	100
ZZAC retired employees	5	Accessibility		
Farmers around ZZAC	23	Accessibility and age		
Farmers around PAFs	7	Accessibility		
PAFs employees	39	Accessibility		
Government	7	Relevance to ZZAC and PAFs, accessibility		
Shop keepers	1	Accessibility		
<b>Totals</b>	<b>280</b>		<b>167</b>	<b>95%</b>

## 3.2 Methodology

The fieldwork was undertaken in Zhengzhou City, Henan Province, China, and was carried out in three phases between 2004 and 2011. Data collection in the first phase spanned 2004 and 2005 and comprised a questionnaire survey, face-to-face interviews, observations and telephone interviews, and was aimed at exploring CSR of the case companies from economic, social and environmental dimensions. The second phase was undertaken in 2006, and was designed to fill in gaps identified after the first phase. Data collection in the second phase comprised face-to-face and telephone interviews with key informants along with the collection of new secondary data that was not available during the first phase. The third phase took place in 2011, and was designed to extend the analysis to the present. Data collection involved face-to-face and telephone interviews with key informants.

Table 4 lists the different stakeholders of ZZAC and the small factories PAF1, PAF2, PAF3 and PAF4 included in the research. The stakeholders included current employees, former employees (including both the redundant former employees and retired employees) of ZZAC as well as farmers of the communities around ZZAC, and PAF employees and farmers of the communities that PAFs are in. Sampling of ZZAC current employees covered all divisions of the firm, while sampling of former employees was based on residential area and accessibility. ZZAC senior managers were interviewed and analysed as a separate group because they might have different views because of their former positions within the firm. A total of 167 semi-structured questionnaires (95%) issued to ZZAC current employees, redundant former employees and 5 senior managers were completed and returned. The questionnaire comprised a mix of closed and open-ended questions, and aimed to cover the economic, social and environmental impacts of the firms. To gain more insight, 17 additional senior managers of ZZAC were questioned face to face regarding their perceptions of the company's environmental impact and its future. A small sample (23) of farmers living and farming in communities near ZZAC, local shopkeepers (1) and relevant government officers (7) were also interviewed. Because of the simpler management structure of private firms in China and more difficult access to the local communities, only the managers and current employees of these firms were questioned and a small number of farmers near PAF1 were interviewed. A total of 104 face-to-face interviews were conducted with these stakeholders for ZZAC and the PAFs.

## 4. RESULTS: INSIGHTS FROM THE INSIDE

### 4.1 A retreat from CSR

ZZAC set up a series of welfare facilities following its establishment in 1956 including a number of schools, a hospital, kindergarten, leisure facilities, and cafeterias to serve ZZAC employees and their family members. In addition, a milk station to supply milk to ZZAC employees and their families was set up because the milk supply at that time was not sufficient in China. It closed in the early 1990s when milk supplies improved. As a result, ZZAC became a typical '*big and complete*' enterprise in the local

parlance. Its medical and educational facilities have provided opportunities and convenience to many within the local community, and the cafeteria, leisure facilities and milk station had helped to improve the quality of life for ZZAC people (Figure 4). However, since 1993, in line with the national policy of decreasing the burden of large and medium enterprises in China, ZZAC started to cut away its excessive vertically integrated ties so as to increase its specialization. All the non-profit units including the hospital, cafeteria, schools and retirement benefit office, along with more than 1100 current employees, have been separated from ZZAC and have gradually become independent profit centres, namely the ZZAC Industry Company. But this separation was just in name, as was stated in the official documents that:

*“ZZAC Industry Company is separated from ZZAC after ZZAC became a listed company, the property rights of ZZAC Industry Company now belongs to Zhengzhou State Asset Administration, but Zhengzhou State Asset Administration entrust ZZAC Industry Company to the care of ZZAC”*

(Prospectus of ZZAC’s Raising Capital by Floating Shares (1993, p39).

So ZZAC was still in charge of the ZZAC Industry Company after the separation and to some extent, the ZZAC Industry Company still relied on ZZAC financially. The agreement of Debt Equity Conversion in 2000 finally brought this separation into effect. The primary and middle school were handed over to the state in 2004 and 2000 respectively, and ZZAC stopped financing the hospital and kindergarten and other welfare facilities during this period. As a result, free education is no longer available nor is subsidized medical treatment for employees. These were initially replaced by discounts for some hospital treatments but these discounts stopped completely in 2006. After losing financial support, ZZAC hospital, kindergarten and other welfare facilities deteriorated, which have affected people’s perceptions of these facilities and their choice to use them. The divestment process lasted for over 10 years:

1993: ZZAC became a listed company. ZZAC Industry Company was separated from ZZAC, which included schools, hospital, kindergarten, entertainment facilities, and other affiliated units. But this separation was just in name. The state entrusted ZZAC Industry Company to the care of ZZAC.

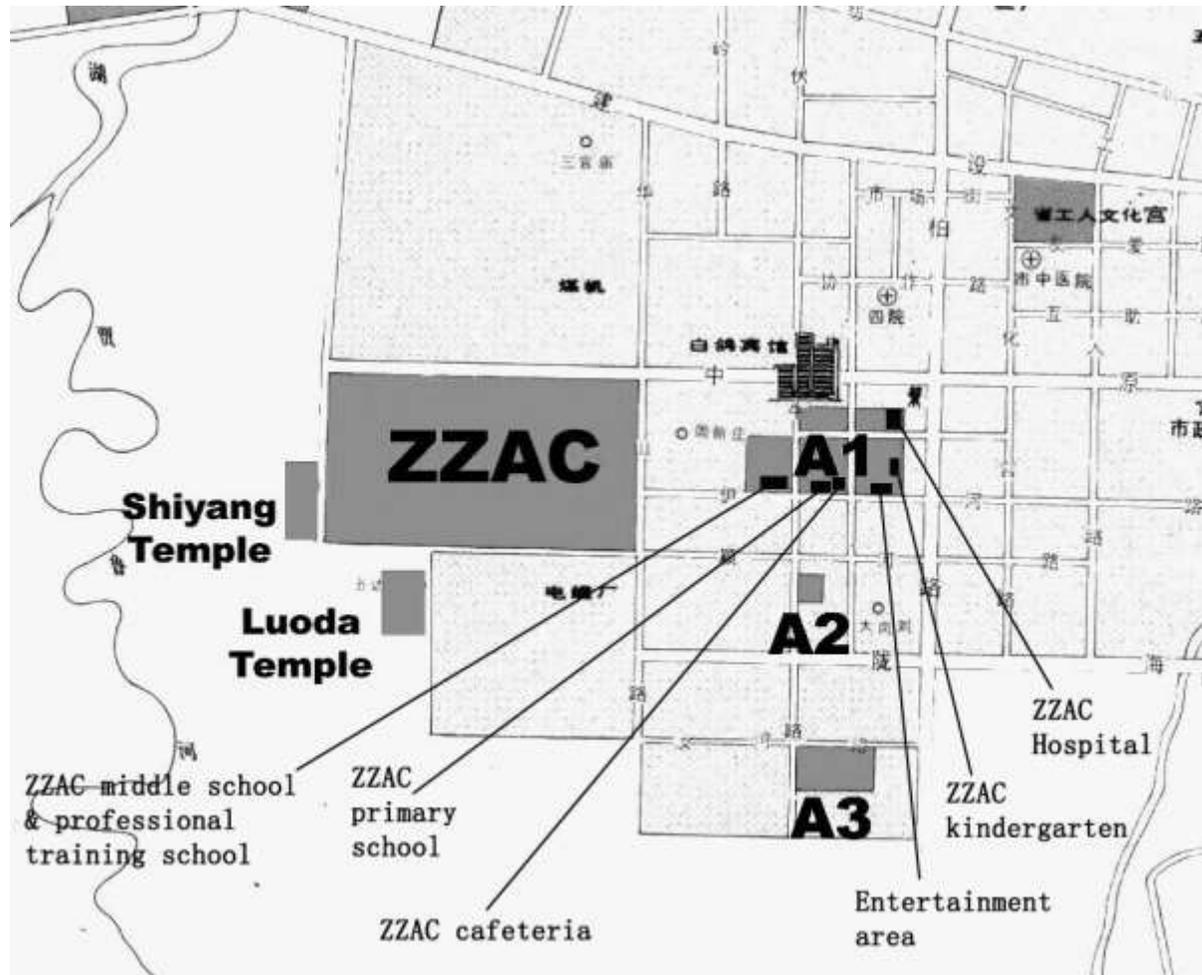
2000: ZZAC middle school was handed over to the state by ZZAC Industry Company.

2004: ZZAC hospital charge to ZZAC employees from zero to 30% discount.  
Funding for staff to look after the entertainment facilities was stopped.  
ZZAC primary school was taken over by the state.

2006: ZZAC hospital started to apply full charges for ZZAC employees.

From 1993, therefore, the social facilities offered by ZZAC began to decline. Before long, the impact of

decreased investment in these facilities began to be seen in terms of a decline in the use of their services making them less attractive and therefore less viable. In what follows, we will consider this process in some detail in the context of three of the facilities provided – health, education and social welfare.



**Figure 4. The community facilities established by ZZAC**

There are no personal doctors in China and when people are ill they can choose to go to any hospital they wish and, of course, can afford. During the survey, the current and former employees were asked how they thought the ZZAC hospital was performing in general terms compared with other hospitals in the area. Few respondents thought that the ZZAC hospital was better than others; while 65% of former employees and 75.2% of current employees said that ZZAC hospital was worse than others (Table 5a). People's choice of hospital has been affected by their perception of the ZZAC hospital. In the past, ZZAC hospital was the main hospital for the majority of ZZAC employees and their families. In the survey, current and former employees and their family members were asked if they would like to go to ZZAC hospital when they were not well. Only 30% of former employees and 20% of their family members would choose to go to ZZAC hospital, and the proportion of current employees and their family members who choose ZZAC hospital is 28% and 22.4% respectively (Table 5b).

ZZAC hospital has also not been the preferred hospital for farmers' near to the site. Interviews with

farmers in the villages around ZZAC, Luoda Temple and Shiyang Temple shows that only 2 out of 23 (8.7%) interviewees would choose to go to ZZAC hospital if they did not feel well. The reasons most people would not choose ZZAC hospital is that firstly the ZZAC hospital is relatively far away from them, and secondly the ZZAC hospital is overpriced for its services. Farmers would choose to go to a better hospital if they had serious problems and needed medical attention.

**Table 5 Perceptions of ZZAC hospital relate to others.**

(a) Question: *What do you think of ZZAC hospital compared to other hospitals in general terms?*

Category of respondent	Number of respondents (%)			Total
	Better	Worse	Same	
Former employees	0 (0%)	26 (65%)	14 (35%)	40
Current employees	2 (1.9%)	79 (75.2%)	24 (22.9%)	105
<b>Totals</b>	<b>2 (1.4%)</b>	<b>105 (72.4%)</b>	<b>38 (26.2%)</b>	<b>145</b>

(b) Question: *Would you choose to go to the ZZAC hospital if you are not well?*

Category of respondent	Yes
Former employees	14 (30%)
Current employees	33 (28%)
Former employees family	9 (20%)
Current employees family	26 (22.4%)
<b>Totals</b>	<b>82 (25.4%)</b>

As part of the withdrawal of ZZAC's social CSR, the ZZAC kindergarten has also become independent from ZZAC. The secretary of the ZZAC kindergarten said that before 2000, the kindergarten was only open for ZZAC employees' children and it was free of charge, but it has changed in recent years. They

now open to the public and charge the market price for all children. In the survey, it was found that about 62% of current employees would like their children to go to ZZAC kindergarten while the rest of them chose to use other local kindergartens. However, less than half of the former employees (48.7%) would choose to send their children to ZZAC kindergarten (Table 6). The reason for their choice of the ZZAC kindergarten is mainly that it is close to work/home hence it is convenient to drop off and pick up children.

**Table 6. Stakeholders' choices of kindergarten**

Category of respondent	Which kindergarten are your children going to?		Total
	ZZAC	Others	
Former employees	19 (48.7%)	20 (51.3%)	<b>39 (100%)</b>
Current employees	43 (62.3%)	26 (37.7%)	<b>69 (100%)</b>
<b>Totals</b>	<b>62 (57.4%)</b>	<b>46 (42.6%)</b>	<b>162 (100%)</b>

ZZAC provided an open basketball court, a recreation hall which included a dance floor, gym and table-tennis equipment, and a library. There had been more than 10 people working in these places before 2000, but in 2005, there was only one person responsible for both library and the recreation hall. Although the basketball court was outdoors, there had always been someone to maintain it. After 2002, the stewards were unable to make ends meet and the gym equipment was withdrawn, and there was nobody detailed to take care of the basketball court after this change. From the survey, around 46% of respondents were aware of the basketball court and recreation room but only one person (0.9%) said he was still regularly using these facilities, while 19.8% of those surveyed use them occasionally and 79.3% have never used these facilities.

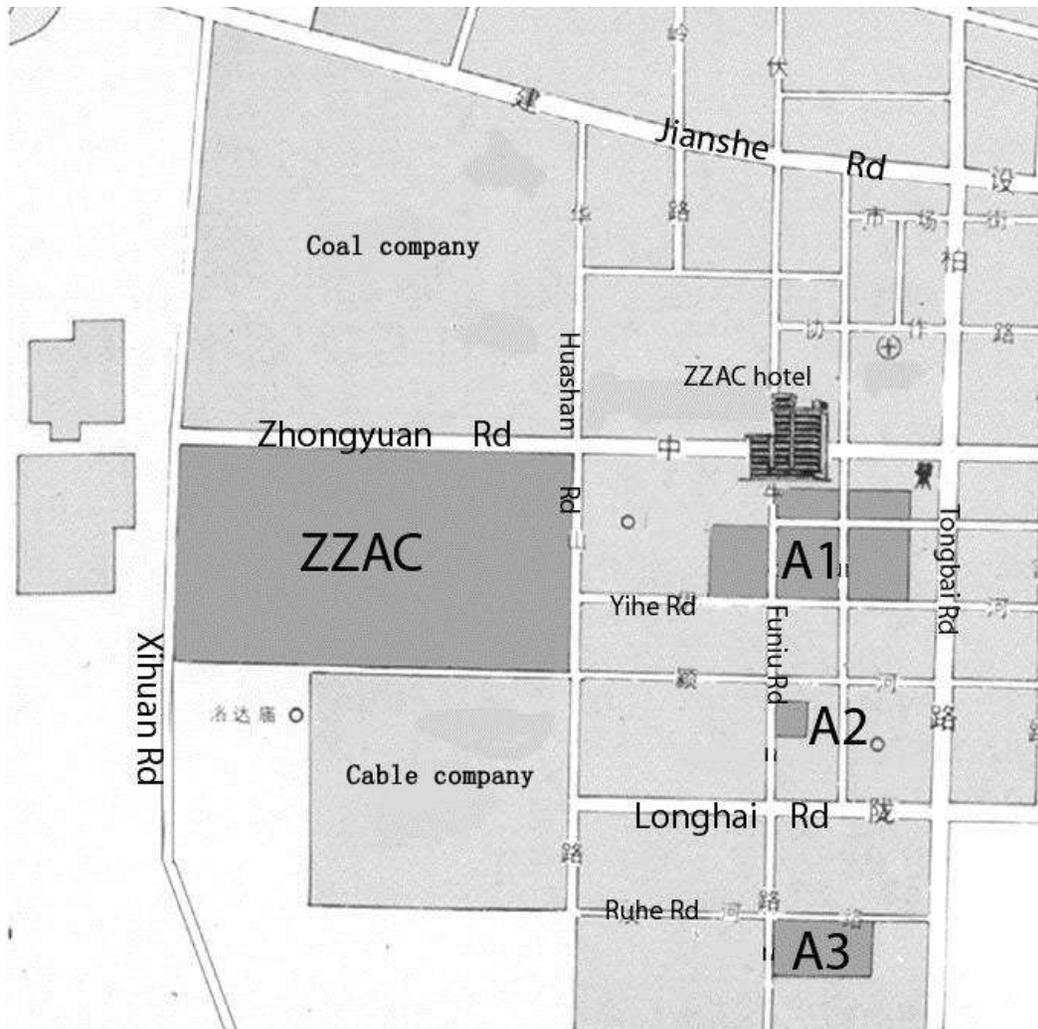
There had been two libraries in ZZAC; a reference library storing technical books and another ordinary library storing other books including a fiction section and magazines. Now the reference library is closed and the ordinary library is open for just 3 days a week. Not many people come to borrow books as there have been few new books or magazines acquired in recent years. Only 12% of survey respondents said that they used the library while 52% said they used to visit the library in the past but have since stopped (Table 7).

**Table 7 Use of ZZAC library**

<b>Use of library</b>	<b>Number of respondents (%)</b>
<b><i>Currently use the library</i></b>	14 (12%)
<b><i>Never use library</i></b>	37 (32%)
<b><i>Yes before but not now</i></b>	61 (53%)
<b><i>I did not know we have a library in the company</i></b>	4 (3%)
<b>Total</b>	<b>116 (100%)</b>

Where ZZAC and its community are situated now was once outside of Zhengzhou City in the undeveloped rural land. There was limited road access prior to ZZAC. The existence of ZZAC (and a couple of other SOEs later on) resulted in a number of roads being built in the area. Yihe Road was built during the establishment of ZZAC in the 1950s to connect the company site and the employees' living area (which later became the ZZAC community). Because of this special purpose, it was called 'ZZAC Road' by local people. Another road (Huashan Road) was set up later to facilitate ZZAC's transport of products and materials by large road vehicles (Figure 5). Along with the expansion of ZZAC community, a larger and more complex road network and a sophisticated public transport system was developed connecting the ZZAC area and the rest of the city. In 2010, there were around 10 bus routes stopping in the ZZAC area. During the survey, about 86% of current employees agreed that the roads and public transport were better because of ZZAC's presence, and 87% admitted that the improved road and public transport system had made life easier for them.

ZZAC has also been responsible for the road maintenance in its area, and for this purpose a new office named 'Production Safeguard Branch of ZZAC' was established in the 1960s. However the maintenance service provided by the 'Production Safeguard Branch' has become inadequate in recent years. The head of the Production Safeguard Branch said in an interview that "*workers are not happy that they can not get full salary from the company, so it is hard to get any work done.*" One day during the field work in 2005, one of the drains in the ZZAC community was blocked, and the production Safeguard Branch could not organize people to fix it on time - this was exposed by the local media.



**Figure 5 Roads around ZZAC and its communities**

The Chinese Government attempted to clarify the objectives of SOEs by minimising their social objectives and prioritising their financial objectives. This, it was hoped, would help the SOEs to run more efficiently without government support and to thrive after marketization. However, despite this streamlining of their objectives, the economic performance of the SOEs (ZZAC here) did not improve (as seen from Figure 1), and this puts the applicability of the “trade-off hypothesis” into question - at least for this company. So have the newer companies - the PAFs - stepped in to cover the CSR void?

#### **4.2 PAFs to the rescue?**

The four PAF factories produce different types of abrasive and grinding products, from low technology to high technology, but each produces something that has an equivalent in ZZAC's product range. The owners are previous ZZAC employees who mastered the technology while working in ZZAC and decided, from their perspective, to put their skills in better use. They still keep in touch with the old colleagues in ZZAC and get to know the latest product and market information. The PAFs can almost be seen as parasite companies of ZZAC. Detailed information of the PAFs is in Table 3 and their locations are shown in Figure 3.

PAF1, 2, and 3 are located in different villages around ZZAC in Zhengzhou City, and PAF4 located in an industrial park to the west of Zhengzhou. They rent land and properties from the local authority to start their business. Their employees are rarely local, and are normally from the owner's hometown. They are either the owners' close friends or relatives or someone recommended by the friends and relatives. As the owner of PAF3 said *"we don't hire any local people, nor females"*. The reason for that is that they have enough money for living by renting land, and they are too spoiled to do the work required in the factories. For the same reason, the owner of PAF4 did not want to hire redundant former SOE employees - *"they are not hard working."*

So strictly speaking, PAFs have not made any community contribution. This is confirmed by the government officer of Henan Medium and Small Enterprises Bureau who said in an interview that

*"The private enterprises hardly have any social responsibility; they don't provide medical service or educational system for employees. Some large scale ones may follow the national social security system and pay 'three funds' -- old-age insurance, unemployment insurance and urban housing provident fund. But the small ones hardly do anything. They hire labour workers from rural areas who have no children with them. There is not the same level of liabilities for layoffs and retirement in small private factories."*

As an old SOE, ZZAC has been very active in voluntary and charity activities. For example ZZAC hospital staff went to Tibet for voluntary work in 1975. According to the ZZAC internal newspaper, 29 voluntary and charity activities were reported from 1997 to 2004 (see Table 8a), including voluntary tree planting, voluntary work for ZZAC retired employees, voluntary work with problem youth, voluntary road crossing patrols, charity donation for disaster relief, etc. However, Table 8b indicates a decrease in the number of voluntary and charity activities. It is understandable that the poor economic performance between 1999 and 2002 limited ZZAC's ability to take part in voluntary activities. It is less intuitive that these activities have not increased despite the improvement in profitability after 2002 (the gross profit of 2003 and 2004 was 3.6 times and 1.8 times that in 1997 respectively). However, this return to earlier levels of charity activity might take time as the company may be uncertain about whether the improvement in profitability is a temporary phenomenon or if it will be sustained in the long run. This is confirmed by a field revisit in 2011. ZZAC has been taken out of the stock market due to its low profitability and some political reasons (as the locals put it).

**Table 8. Voluntary and charity activities of ZZAC and PAF**

(a) Number of examples of voluntary and charity activities undertaken by ZZAC

Year	1997	1998	1999	2000	2001	2002	2003	2004
Number of records	9	12	0	2	1	2	1	2

Source: ZZAC News, various years.

(b) PAF managers' attitudes to philanthropic donation

	Attitude to charity donation	Reasons
PAF1	<i>Refuse to express this attitude</i>	--
PAF2	<i>I would not do it</i>	Small private business running is so hard, the government does not help us, why would we help them (helping the poor is the business of government).
PAF3	<i>No charity. We are struggling financially with expanding the production</i>	I don't even take my own salary home every month as the factory needs money and we cannot get loan from the bank.
PAF4	<i>Not on the factory's behalf, but might on my own behalf.</i>	I need money as well. Moreover, if I do donate, who knows if the money really goes to charity (it might be corrupted).

Talking about their social contribution, PAF owners typically argued along the lines of:

*"I work hard to run the factory. We hire people, and we pay tax. Are they not contribution?"*

However, regarding charity donation, the owner of PAF1 refused to say anything. Owners of PAF2 and PAF3 indicated that they have no extra budget for such donation, and the reason for this is that the banks, which are still government controlled, refuse to loan them money as they have less guarantee to return the money (Table 8). So the preferential treatment for SOEs, particularly the difficulty for PAFs to get loans from the bank has made the PAF owners seek a kind of trade-off; less help from the state means less responsibility for society. It seems that the private owners are making the state the scapegoat for their lack of social responsibility. Maybe this is also why the public think the private firms have less liability for social responsibility.

Table 9 indicates that there is no gender discrimination in ZZAC’s recruitment process, especially when comparing to the PAFs where women are only taken for certain types of jobs. In addition, women employees have not been discriminated against during the process of redundancy in ZZAC. During the fieldwork, women employees were asked whether there was support for pregnant employees at work and whether people can get paid for maternity leave. 40.3% of respondents admitted there was support for pregnant women at work, and 25.8% of them said there was paid maternity leave. This result did not seem to match what was stated by Zhang (1995) that ‘ZZAC respect women employees’ rights...there is no labour work and no night shift for pregnant women employees...’ A few in-depth telephone interviews explained the contradiction as women’s rights were respected in the past but this has not been so obvious in recent years. New mothers could get full salary for maternity leave in the past, but now they can only receive 80% of the average salary of the branch she works for, and this pay is always delayed for a long time. Thus, on this front too, the CSR of the firm has been declining.

**Table 9. Comparisons of the information of sample employees between ZZAC and PAFs**

	Gender		Average age (years)
	Male	Female	
ZZAC	45.7%	54.3%	37.63
PAFs	87.2%	12.8%	32.69

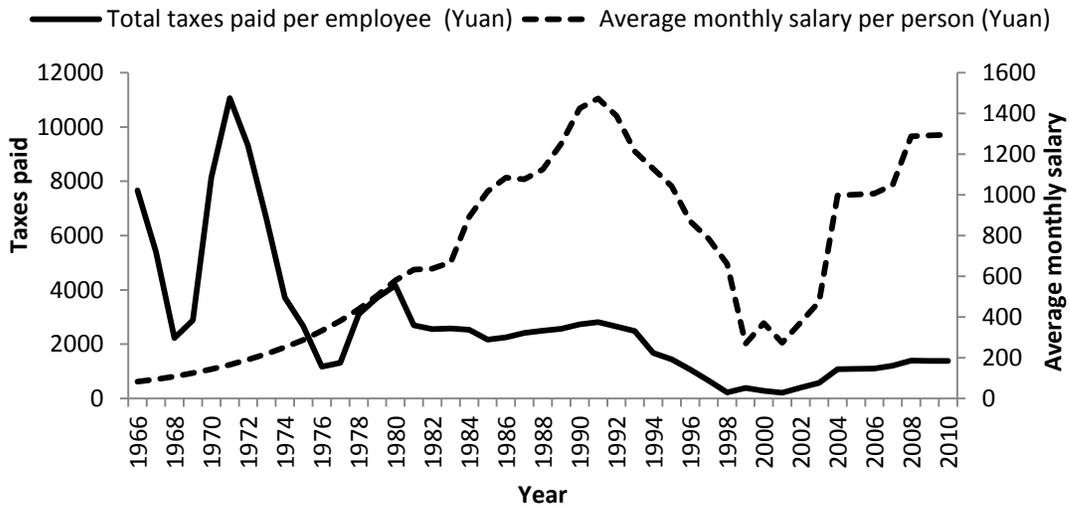
Table 9 also indicates that the proportion of male employees in the PAFs is much higher than that in ZZAC. PAF owners are less willing to employ women because they feel that female workers are less suited for labour work because of their physical characteristics. They therefore recruit only males for such work, and females for office jobs. Amongst 39 PAF employees, only 8 are female. The PAFs provide no paid maternity leave, and in one of the PAFs, female workers had to quit their job to have babies.

Thus, although ZZAC’s record with regard to worker’s rights is worsening, it still remains better than the PAFs. However, it needs to be noted that ZZAC’s record with regard to other worker rights is also worsening. The survey result indicates that 86.3% of current employees do not feel their views are represented in the company policy making. In addition, 94% of current employees do not know there is a system in place to deal with employee grievances i.e. help line or independent ombudsman ensuring employee anonymity for whistle blowing. However, according to the field observation of PAFs, worker’s rights are even less respected. The managers of PAFs have never seemed to consider the human rights of their employees and PAF employees do not seem to request or be aware of any basic rights they are entitled to. For example, the workers of PAF3 seem happy with the fact that they are not allowed to go

out to the village without permission from their manager. So although in this regard, ZZAC has a better performance than PAFs they are both far from being perfect.

Table 9 indicates that the average age of workers in the PAFs is less than that of ZZAC. PAF owners stated that fit, young men can complete physical tasks more quickly than older male or female workers, and because these young men are in good health they are absent less often for medical reasons.

Figure 6 indicates that after yearly increases of average salary from 1966 to 1991, ZZAC employees' pay fell significantly sometime between 1991 and 1997, and in 1999, the average monthly salary fell to its lowest level of 268 Yuan, which was only 18% of that in 1991 (if inflation was considered, the difference would even be greater). Since 2001, however, salaries have improved because of the restructuring measures and the improvement in labour productivity that these restructuring measures have generated. Even so, in 2004, the salary (997 Yuan) was still only 68% of that in 1991 (1,473 Yuan). However, the average salary of all industrial enterprises in Zhengzhou in 2004 was 1,195 Yuan per month, thus, ZZAC employees would appear to have been paid less than the city average. This is a dramatic change from the days when ZZAC's salary levels were 'always higher than Zhengzhou's average, especially from 1985 to 1993' (Sha, 2004). However, the salary level reported by ZZAC current employees is even lower.



**Figure 6. Average monthly salary and total taxes paid per employee in ZZAC**

Table 10 shows the survey result of the average monthly pay of ZZAC employees over a 12-month period, and this indicates that the majority of ZZAC current employees were paid 500-1000 Yuan per month. If we replace the categorical data with the average of each category, we can get the average pay of ZZAC over the 12 months prior to the survey, which is 694 Yuan per month. This figure is much lower

than the official data about the average monthly salary of ZZAC in 2004. Although it is notable that these data cover 10 months of 2004 and 2 months of 2005, and this is different from the period for the official data of 2004. There might also be other reasons for the differences. For example, people tend to report a lower value when they are asked about their income. After a few in-depth telephone interviews, we understand that the official data about the average monthly salary is the pay that employees should have received, but salary in many branches was delayed or not paid in full. Table 10b indicates that more than half of the respondents did not get their full salary between February 2004 and February 2005. Hence, the actual income reported by employees is lower than the official data.

**Table 10. Payment of ZZAC employees**

**(a) Average monthly pay actually received by ZZAC employees (2004-2005)**

Money (Yuan)	Number of respondents	%
<500	27	23.5
500-1000	75	65.2
1000-1500	12	10.4
1500-2000	1	0.87
<b>Total (employees surveyed)</b>	<b>115</b>	<b>100</b>

**(b) Number of months that ZZAC employees were paid full salary (2004-2005)**

Months	Number of respondents	%
<b>0</b>	5	<b>4.5</b>
<b>1-5</b>	21	<b>19.1</b>
<b>6-11</b>	37	<b>33.6</b>
<b>12</b>	47	<b>42.7</b>
<b>Total</b>	<b>110</b>	<b>100.0</b>

Furthermore, to find out if the low wages from ZZAC had persisted for a long time, current employees were questioned whether, in real terms, they felt that their pay had gone up or down in the recent past. The answers included a spread of cases with perceptions of rises, decreases and stability in real income. Some 12% of respondents said their real income from ZZAC had been going up, 30% of them said their income remained the same as before, while more than half of them (58%) said their income had been going down.

The survey indicated that the average monthly salary paid in the PAFs was 1,021 Yuan in the 12 months to March 2005. Given our other finding that the average monthly salary of ZZAC employees was 694 Yuan in the 12 months prior to February 2005, and that the average monthly salary of employees of all industrial enterprises in Zhengzhou in 2004 was 1,195 Yuan, it can be seen that the salary of the PAFs is close to the industry average - and is significantly higher than in ZZAC. By way of paying salary to their employees, PAFs are linked to some rural households. Table 11 indicates that around 51% of the PAF

employees earn more than half of their total family income; while only 15.4% of them earn less than a quarter of their family income. Therefore, around 20 families in villages (close or far away from Zhengzhou city) are relying on money from these four factories every month to make their living.

**Table 11. PAF employees' salary: contribution to household income**

Portion of family income	Number of respondents	%
<=1/4	6	15.4
1/4-1/2	13	33.3
1/2-3/4	10	25.6
>3/4	10	25.6
<b>Total</b>	<b>39</b>	<b>100.0</b>

Although the survey results suggest that the PAF employees received higher salaries than those working in ZZAC, responses of PAF employees during face-to-face interviews suggested that their monthly pay might be higher than they reported. For example, when talking to a worker in one of the workshops in PAF1 about his income and his length of working service, he was reluctant to say. He only said that that he was told to say his income was lower than 800 Yuan so as to avoid paying tax (800 Yuan is the tax threshold). However the assistant manager in PAF1 said:

*“some technical workers [someone who can operate machine tools] work day and night sometimes. Because they were paid according to piece rate, some of them can earn more than 2000 a month”*

Clearly the small firm owners are taking advantage of China's tax system and help put more money into their employees' pocket. Of course, the workers are responding by increasing their working hours but they do not seem to mind this because it helps to increase their take home pay.

Like ZZAC, the PAFs have also made tax contributions to the local government exchequer. Table 12 indicates that in Zhongyuan region (the regions in Zhengzhou City, where PAF1-3 and ZZAC are located) the tax revenue of ZZAC was 12.05% of the tax revenue of all industrial firms in 2004. In the same year, the tax revenue of all private industrial enterprises (PIR) was 4.38% of the total tax revenue of industrial enterprises (TIR), which was less than half of the tax revenue paid by ZZAC. This is not surprising given that most PAFs are small. It does, however, place their relative contributions in context. Comparing the tax paid per employee, three of the PAFs are higher than ZZAC, which indicates the higher contribution of most PAFs.

**Table 12. Inland Tax Revenue of PAFs, ZZAC and regional total Industrial Inland Tax Revenue (TIR) and Regional Total Industrial Inland Tax Revenue of Private Enterprises (PIR),**

**Figures are for 2004.**

	Company						
	PAF1	PAF2	PAF3	PAF4	ZZAC	PIR	TIR
<b>Inland Tax revenue (thousand Yuan)</b>	130	10	630	300	14,570	5,300	120,930
<b>% of TIR (total industrial tax revenue)</b>	0.11	0.01	0.52	0.25	12.05	4.38	100.00
<b>Tax revenue paid per employee (Yuan)</b>	5,200	667	18,000	25,000	1,080	---	---

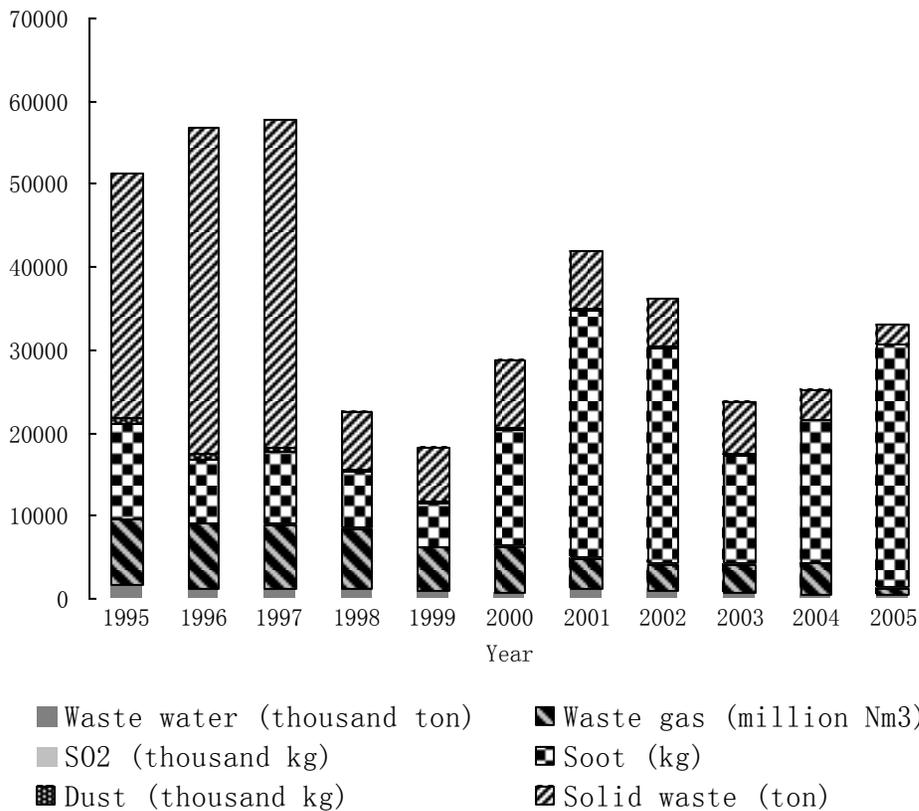
Data source: PAF1, PAF2, and PAF3: Zhongyuan Regional Inland Revenue, Zhengzhou, Henan, China; data for PAF4 were from its manager.

The pollution produced during ZZAC's manufacture of abrasive and grinding materials includes airborne pollution, waste water, solid waste, machine noise and waste gases (Zhang, 1995). The main air pollutants include soot, dust, SO<sub>2</sub> and several other types of toxic and non-toxic gases. SO<sub>2</sub> is produced during the process of drying grinding materials. Soot is produced during the process of carborundum and corundum smelting, and dust is produced during crushing, granule making and grinding material processing. The dust is fine-grained with high density and high rigidity, including harmful particles such as silicon dioxide and alumina (Zhang, 1995, p150). Farmers living around ZZAC have suffered from environmental pollution produced by the company in the past. In two villages next to ZZAC, Luoda Temple and Shiyang Temple, it was reported that the soot discharged during the carborundum smelting process settled on the farmers' vegetable fields and contaminated the vegetables, consequently many farmers suffered financial losses. The farmers also suffered from water pollution because of waste water run-off into their vegetable fields.

There have been some long term problems with the ventilation systems of ZZAC's main production line due to a fault in design when ZZAC was established in 1956 (Yu, 1986, p289). This, along with the ageing and inevitable degradation of the machinery, has made the pollution problems from ZZAC increasingly serious. The main occupational disease in ZZAC is Silicosis, which is a lung disease that develops over time when dust containing silica is inhaled. There is no cure for silicosis to date and most silicosis patients die from its syndromes which include lung cancer, lung infections, and in particular from tuberculosis (TB). Although ZZAC has started to take action on pollution abatement since 1970s, 218 workers were found to be suffering from some form of lung damage during the regular check from 1978 to 1980. Some of these sufferers went on to develop silicosis. In 1994, the cumulative investment in waste water processing machinery was worth 1.2 million Yuan and investment in the dust control machinery

worth 6 million Yuan (ZZAC internal document, 1995). At the same time, many environmental protection procedures and internal regulations were introduced to the company (Zhang, 1995).

Based on secondary data, Figure 7 shows the main types of pollution from ZZAC and their changing trends from 1995 to 2005. It indicates that during this period waste water produced by ZZAC has reduced by 77%, waste gas reduced by 89% and SO<sub>2</sub> by 32%. In 2005, solid waste output was 8% of that in 1995, while dust emission was only 0.6% of that in 1995. During the same period, only soot emission increased by 1.6 times. Hence according to the total pollutants produced, ZZAC's environmental performance has improved over 11 years (1995-2005), and this improvement has contributed to the overall improvement of environmental CSR of ZZAC.



**Figure 7. Pollutants produced by ZZAC between 1995 and 2005.** Source: ZZAC Environmental Report (1995-2005).

Despite this improvement, current employees and senior managers see ZZACs' pollution record quite negatively (see Table 13). The majority of current employees (55%) believe that the pollution situation is either the same as it was or is getting worse. Only 27% felt that it was getting better. Surprisingly, even amongst the senior managers only 46% felt that the pollution situation was getting better. By way of contrast some 62% of former employees felt that the situation was improving, and only 7% felt that it was

getting worse. It seems that the current employees tend to agree that the environmental condition is getting worse while the former employees do not concur. So it seems that the current employees and senior managers are more pessimistic, while the former employees are more optimistic about the environmental conditions of ZZAC.

Given ZZAC’s significant improvement in terms of emission of pollutants indicated in Figure 7, the reluctance of current employees (and management) to perceive this improvement is surprising. However, with current employees still encountering the effects of pollution every day, it is understandable that they are less able to see the improvements. Former employees lived near the site but they no longer had to endure the problems within the factory and hence were generally more positive. Many senior employees found questions regarding the environment too sensitive, but even so more than half of them admitted that pollution was the same or worsening. One of the senior management staff of ZZAC admitted that *"ZZAC is a big pollution source"*. Government officials on the other hand, were more balanced: *"ZZAC is a lot better now in terms of its environmental pollution, but it does produce fewer products as well"*

**Table 13. Perception of changing tendency in pollution from ZZAC.**

Category of employee	Trend in pollution from ZZAC				Total
	<i>getting better</i>	<i>same</i>	<i>getting worse</i>	<i>don't know</i>	
Current employees	31 (27%)	44 (38%)	20 (17%)	21 (18%)	116 (100%)
Senior managers	10 (46%)	8 (36%)	4 (18%)	0 (0%)	22 (100%)
Laid-off employees	28 (62%)	10 (22%)	3 (7%)	4 (9%)	45 (100%)
<b>Total</b>	<b>69 (38%)</b>	<b>62 (34%)</b>	<b>27 (15%)</b>	<b>25 (14%)</b>	<b>183 (100%)</b>

In addition, all 22 farmers in the two villages near ZZAC reported that there was no longer any pollution, though it had been very serious in the past.

No surprisingly, given the long history of ZZAC and the relatively recent growth of the PAFs, there is much less information on the environmental performance of the PAFs. From a sample of 39 PAF employees, 7 (18.4%) thought there was no pollution from their factories. But around 42% thought there was air pollution, and around 80% of them thought there was noise pollution from their factories. In the

village where PAF1 is located, only two in 7 respondents (14%) thought these small factories caused environmental pollution. One woman said:

*“there used to be loud noise around here, but no one complained. We countrymen don’t want to create waves after all. There is no more noise now. It was said the factory which made noise went bankrupt.”*

One young man said:

*“Pollution, yes! Lots of noise and air pollution! Some polluted water was discharged straight into our farm field. But as these factories are all small, the pollution is almost unnoticeable. Many farmers just care about the short-term benefits as they are enjoying having the compensation from the factories; no one is thinking of the future.”*

A senior officer of Zhengzhou Zhongyuan Environmental Monitoring Team, who is responsible for the environmental pollution of firms in Zhongyuan Region where PAF1-3 and ZZAC are located, thought that the pollution level of the PAFs was more serious than ZZAC, although she admitted that they do not assess the pollution levels of the PAFs in the way that they do for ZZAC. Her assessment is based on occasional checks of polluting factories when incidents are reported by local residents.

Although there is a decreasing engagement with CSR, ZZAC does seem to have a better sense of social responsibility than the PAFs. So it is reasonable to think that ownership can affect CSR, and state-owned companies have higher CSR than private companies? The reason for this, at least in this case study, is the demand from the employees and the pressure from the government to keep social stability. The fact that the state in 2012 urges all central enterprises to submit a social responsibility report is evidence of state pressure for CSR. In 4 PAFs, it was found that the higher the owner’s educational level, the better sense of CSR that they have. Hence the owner’s educational level seems to be another factor influencing CSR. Coincidentally, the firm with highest educational background owner has the best economic performance and smaller size (based on the number of employees).

## **5. DISCUSSION**

The results of the research discussed here illustrate how CSR has changed alongside the economic transition in China, and how this change is related to the firm’s EP. The use of the case study approach allowed for a depth of insight that is often lacking with larger and more superficial datasets. Thus it was possible to explore some of the deeper issues that arose from the pressures for change, and in particular how this allowed for the evolution of both ZZAC and PAFs. As a large SOE in China, ZZAC’s

experience during the economic transition period bears a close resemblance to other large and medium size SOEs in China. The PAFs in the study have the similar experience to many grassroots firms in China. However, it has to be acknowledged that every case has its own distinctive features and the companies chosen for this study are located in one of the most populated provinces in transitional China, and the PAFs have developed as offshoots of ZZAC to become independent businesses. But even these features are not that unusual both in China and in other countries undergoing transition, and thus it may be argued that the lessons for CSR do have a wider applicability.

Admittedly not all aspects of CSR have been examined and assessed due to the accessibility of the cases and the availability of data, but even so there are clear patterns and these match with the bigger picture of change in China. Prior to the economic reforms in 1978, social CSR in China was known to be very high and it had a higher priority than profitability. During the initial period of reform (1978-1992) CSR stayed the same as the state ownership of Chinese firms had not changed. The market transition in 1993 has completely changed the ownership structure of SOEs and private businesses were further encouraged to grow and blossom.

The Chinese state obviously followed the ideas set out in the “**trade-off**” hypothesis, and intended to increase the profitability of SOEs by allowing them to shed their social responsibility. ZZAC in our case did what many SOEs did at that time, but the fact is that even with less social obligations, ZZAC, like many SOEs who were so used to everything being planned for them, could not manage their own operation efficiently, and still partly rely on the state to keep them from drowning in the marketization turbulence. So the withdrawal of CSR arguably did not really help to improve their economic performance. However the loss of state support coming with the withdrawal of CSR has certainly given ZZAC good opportunities to improve their management skills. So the trade-off hypothesis failed the test in our case study and in a transitional economy. However it does not rule out the possibility of working in a post –transition period.

The fact that none of PAFs was willing to donate or take part in charity activities and that ZZAC did not keep up with its previous charity activities after its economic recovery in 2000 indicates the failure of the “**available funds**” hypothesis in our study. We conclude that maybe the seven hypotheses of CSR-EP relationship proposed by western researchers are applicable just for the firms in the western developed countries, instead of in China or other transitional economies. Clearly, more research is required in this area.

No matter how much it is criticized by the CSR proponents around the world, working longer hours so as to earn more money has not been shown as anti-CSR in our study. Instead, it is considered in a favourable light by both managers and the employee.

At the time of writing, the four PAFs in the study have improved both their EP and CSR. Salary and employment levels have increased significantly in recent years. Although it cannot be said to be the case with all PAFs, in the examples explored in this research there are signs that some managers have started

to pay more attention to environmental issues. However, voluntary and philanthropic activities are still non-existent for the PAFs. As Lee (2008) has noted, for SMEs, the business owners/managers can play a more important role in pushing CSR engagement than they may be able to do for large companies. Managers are also social beings with personal ethical standards, and their central challenge is *“how to arrive at some workable balance”* between profit making and moral criteria (Gioia, 1999). In the four PAFs, the owner of the firm with the best CSR practice has the highest educational level. Although this evidence is limited, it does nonetheless raise the question as to whether there is a relationship between owner/manager’s educational level and the firm’s CSR practice. There is clearly a need for more research. Another explanation is that in China, the public expects state companies to be CSR providers. There are therefore fewer CSR pressures on private companies. However, as Weyzig (2009) argues *“in the absence of stakeholder pressures, profitable CSR initiatives generally fall within the role of the private sector”*. As a less favoured customer of Chinese banks, this is a very good strategy for private businesses to survive and they may eventually outperform the state companies. This resonates with the original self-serving purpose of CSR advocacy during the Cold War.

How best to encourage firms to engage in CSR activities in China, or indeed more broadly within transitional economies, remains an important question. Since business and society relations in different countries vary significantly, each country has distinctive issues and interests, shaped by its unique history, culture and its stage in social development. In the context of China, we consider two driving forces for CSR advocacy – external pressure and internal motivation. Externally, the pressure from the government via policy in relevant areas such as environmental protection, labour practice and human rights, allied with enforcement, and the demand from the public for high social responsibility would push the business to contribute to society. Internally, since high profit is the final goal of most firms, if it can be proven that high CR leads to improved economic performance and this, in turn, leads to increased CSR, then this virtuous circle may incentivise low CSR companies (like the PAFs) to invest in CSR. However, where exactly is the point that the right balance between CSR investment and EP can be found? How much exactly do firms have to invest in CSR so as to generate the highest profit? There is clearly a need for further research in this area.

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