GFC Working Paper 200803

‘MADE IN CHINA’ AND THE DRIVE TO INCLUDE CSR

Xi Shen, Craig Fleming

© Copyright Centre for Global Finance
April 2008

Centre for Global Finance
199 Taikang East Road
University of Nottingham Ningbo, China
Ningbo 315100
China
Tel: +86 (0)574 8818 0031
Fax: +86 (0)574 8818 0031
Email: gfc@nottingham.edu.cn
Website: www.nottingham.edu.cn/gfc

The Centre for Global Finance based at the University of Nottingham Ningbo brings together academics from diverse disciplines with a research interest in finance and financial services. Its focus is research that explores how the financial system mediates the economic and social transformation of China in the context of a global financial system. Its aim is to inform and influence the academic, business and policy-making communities.
‘Made in China’ and the Drive to Include CSR

1. Introduction
As China continues to engage in building a harmonious society its influence and economic growth within an ever increasing global market is hard to ignore. However for China and its goods to be fully welcomed into this market there is growing demand and pressure for compliance with international standards of business ethics and socially responsible practices. Corporate Social Responsibility (CSR) is a complex and comprehensive concept to absorb and as China focuses on differing aspects of CSR it has had some bad press in recent years that has gained international attention. The negative news has had a devastating and disproportional effect on potential markets and consumers that these companies compete in and manufacture products for, to the extent that some American companies prefer to use a ‘not made in China’ label. Given these conditions and the unrepresentative bad press, how can Chinese companies overcome the suspicion and negative perceptions of the ‘Made in China’ label? Can a sustained CSR drive win the hearts and minds of global consumers and give a true representation of Chinese business allowing then to compete competitively in the global market?

The aim of this paper is to investigate the level of knowledge and awareness of contemporary CSR practices and accepted guidelines within Chinese enterprises that export to foreign markets and the obstacles they face in order to comply with the differing regulations or standards in each of the markets they want to enter.

Ningbo was carefully chosen as the research area due to many reasons such as: geographic position and strength within the Yangtze River delta, facilities, deep-water port plus relative closeness to Shanghai. According to official figures Ningbo’s exports reached US$38.25 billion in 2007, a rise of 33% from 2006 (Ningbo Municipal Statistics Bureau 2007) and Ningbo’s export dependence ratio (export/GDP) has always been high, reaching more than 80% in 2007 (Ningbo Municipal Statistics Bureau 2008). Moreover, the comparative advantage for Ningbo’s export is mainly in labour intensive industries such as textile, apparel, power tools and shoes (Ningbo.gov.cn 2006).

2. Literature Review
History of CSR
The concept of CSR dates back to as early as 1824 when Cadbury Schweppes already had a clear understanding of its obligations to stakeholders as they realised that good ethics and good business go together naturally(BirminghamUK.com n.d.). Andrew Carnegie expanded this concept and proposed the responsibility of philanthropy in The Gospel of Wealth (Carnegie 1889).

As a concept CSR was developed along with the inception of the consumer and labour movements of the time. Its development was under the condition that with the ever-lasting expansion of capitalism in the 1920s, the problems such as the polarization between rich and poor and the conflict between employer and worker were becoming obvious (Li&Liu 2003). Meanwhile, the Great Depression in the 1930s aroused people’s awareness for corporate social responsibility rather than profit maximization (Wu2006). During the middle and later 20th century, CSR came into a rapid development period in developed countries as large numbers of socially
irresponsible scandals were exposed (Atlantic Monthly Print 2000, Locke and Siteman 2002, Mellahi et al. 2005). In the modern business environment the controversy still reigns with corporate debacles such as Enron, Marconi and WorldCom bringing to public attention, and striking a warning bell for industry as a whole, how short-term thinking and adoption of poor accounting practices could ruin any organisation regardless of its size (Bowd et al. 2003). CSR was and still is a contentious concept in academia as the concept and interpretation of CSR differ between scholars. The term CSR itself came in to common use in the early 1970s (Marlin2003), but it was not until 1979 that Archie Carroll developed what was considered to the pre-eminent model and definition of CSR (Wood 1991, Eberstadt 1997, Phillips and Claus 2002).

**Reasons and Motivations for CSR Implementation**

Reasons revolve around a combination of normative case where an organisation should behave in a socially responsible manner and the business case that represents how to further the organisation’s economic success while engaged in those socially responsible activities (Smith 2003). Some of the motivations and benefits include: new resources and capabilities (Orlitzky et al. 2003, McWilliams et al. 2006); positive effect on employees (Greening and Turban 1997 and 2000, Albinger and Freemen 2000, Beckhaus et al. 2002, Peterson 2004); building of a good reputation (McWilliams and Siegal 2001) and identification of risk management (Kytte 2005).

In addition to CSR other factors that compliment this concept have been developed such as Triple Bottom Line, a means by which to incorporate CSR into the evaluation of an organisation’s performance, and corporate citizenship which encompasses aspects such as philanthropy, social rights, civil rights and political rights (Meehan et al. 2006).

**CSR in China**

CSR came into China only in the mid-1990’s on a tidal wave of social responsibility audits which were launched by numerous multinational organisations involved in mainly consumer goods and the retail sector (Zhou 2006). Its expansion and development have to a great extent been in reaction to export requirements, and initially a wait-and-see strategy was adopted by the Chinese government (Tian 2006). China is now under great pressure to catch up with developed countries where CSR has been developing for much longer. This pressure (to move from a passive approach to a much more proactive one) is coming from the Chinese government, which has altered its attitude and the degree of attention paid to CSR (Tian 2006).

“China is home to the largest export oriented labour force in the world and has become the world’s factory” (Guthrie 2006). China has become the world’s factory and ‘Made in China’ has become an irreversible trend that has permeated every industry in the world (Zhou 2006). Therefore to some extent the implementation of CSR in China will be a focal point in the global supply chain. Economic reform has been strong in China with such a driving force that the rationality of engaging in CSR has been neglected by government, organisations and the public in general. This has had a dramatic negative impact on China’s environmental, social and cultural conditions (Xi 2006). Xi also states that there is motivation now to create a Chinese CSR standard which can be used to assess the performance of Chinese enterprises.

**The Influence of SA8000 in China and its Limitations**

Social Accountability 8000 (SA8000), the first global social responsibility standard contains implementation, certification, accreditation, training and audits for comprehensive labour issues
and the professionals in this area (University Nyenrode 2004). The push for this certification in 2004 was paramount in China as America and European countries contemplated banning any imports from organisations without SA8000 (University Nyenrode 2004). However the assumption that all countries have inclusive social security systems, worker empowerment practices and developed labour unions reflects that SA8000 is limited in its relevance and appropriateness in countries other than those of America and European states (University Nyenrode 2004).

The Global Buying and Sourcing Tendency
Since the 1990’s outsourcing and the search for cheap quality resources has become an important factor within most corporate strategies (Mellahi et al. 2005). Due to low labour costs and the amount of available resources, developing countries like China became an important destination for sourcing solutions (Schmitz and Knorringa 2000). The development and the drive behind this strategy has changed over the years from a simple pricing strategy, to one that included quality, through one that integrated environmental issues to finally arrive at one that fully incorporated all aspects of CSR within its strategy (Schmitz and Knorringa 2000).

3. Methodology
The purpose of conducting this research is to explore the perceptions and the influence of CSR and how this impacts on the actions of organisations within Ningbo whose main business activities are exporting their products to global markets. Therefore it was decided to use the potentially superior qualitative interview approach to the research that would allow for a more flexible and responsive interaction between interviewer and interviewees. Interviews would help the information gathering process to be more effective while at the same time provide clarity and relevance of the study to the respondents (Sykes 1991, P18, cited in Healey and Rawlinson 1994). Limitations and constraints that are represented by this approach are acknowledged by the researcher and the question if the data gained is truly representative is also accepted (Saunder et al. 2003).

Research Approach
First of all, the researcher sent emails to 100 different export oriented companies in Ningbo randomly. The response was average with a total of 25 responses from mostly three industries; the selection process was narrowed with two organisations being chosen from the each industry. One with a relative higher annual turnover, the other with a relatively lower annual turnover to eliminate any company size issues within the research. The industries chosen were: electrical and electronic equipment industry; the clothing industry; and the stationary industry. These industries were chosen as they represent the three largest exporting industries in Ningbo with the electrical and electronic equipment industry representing more than 57% of total exports from Ningbo (Ningbo Foreign Trade and Economic Cooperation Bureau 2007).

The companies to be researched were coded as follows; the two from the electrical and electronic equipment industry being called E1 (relatively higher turnover) and E2 (relatively lower turnover); those from the clothing industry being C1 (relatively higher turnover) and C2 (relatively lower turnover); and those from stationary industry being S1 (relatively higher turnover) and S2 (relatively lower turnover), thereby assuring the confidentiality guaranteed by the researcher.
4. Findings

Electrical and Electronic Equipment Industry

It is clear from the interviews with the CEOs of these companies that their perception and understanding of CSR are quite different; the CEO of E1 said “I think to provide products with good quality and create value for the society is the company’s principle responsibility. Concerning and caring for employees is the fundamental responsibility of the company. Protecting the environment in the economic development process is the responsibility that the company must undertake voluntarily”. While the CEO of E2 thought that “customers from developed countries are more and more serious about CSR which is an irreversible trend for social development. However, the requirements for companies and entrepreneurs should be improved gradually. If the standards changed too quickly, it is hard for the company to meet them”. After interviews with E1 and E2, it was evident that there are many regulations and required certificates for electrical and electronic equipment manufacturers who want to export to the American and European Union markets. UL certificate is needed to access the US market, while for the European market GS, CE, EMC, ROHS, WEEE, REACH, PHAs, EuPs certificates will be requested. In addition to requiring suppliers to comply with these various certificates, large customers especially Fortune 500 companies also conduct audits of factories before placing an order. These audits take place at least once a year.

It is clear from the interviews that there are still some different expectations from the consumers of these countries. For example, American and British consumers emphasise more on human rights; German consumers highlight law; for the Dutch it is whether the actual production process is socially responsible; and for the Japanese it is quality of products that is important. The problems are more complex as some countries are uncompromising about standards. For example if the goods cannot meet their quality standards, no matter how responsible the company is to society, the Japanese will not place an order. In comparison, the Americans will give an opportunity to socially responsible suppliers even if the quality of product is below what is required because they think these socially responsible companies will improve quality gradually.

Clothing Industry

According to the CEO of C1, “CSR can help a company to go out of China as well as help a company do better than before. This is a virtuous cycle and entrepreneurs must understand this relationship”. In the meantime, the CEO of C2 thinks “every Chinese company needs to face up to CSR. However, different companies are in different stages of development. One CSR standard can’t fit all. For companies like us, we are still in the primary stage and only recently set up our business, so CSR requirements are a great burden for us”.

In recent years, the standards for textile and clothing products entering into the European Union market have increased gradually. These have mainly focused on chemical containment. From September 2003 the EU implemented the Instruction Forbidding the Use of Dual Nitrogen Dyestuff. This is an EU-wide Directive which prohibits the use of azo dyes colorant in textile and leather products that directly connect with skin and the oral cavity, and 22 kinds of aromatic amines dyestuffs which have already been confirmed as cancer-causing or likely cancer-causing are prohibited in the Directives. This Directive is still not stringent enough for some countries and they are calling for even tighter control within the Textile industry.
Faced with the ever increasing pressures on corporate social responsibility from American and European countries, combined with frequent requests for audits from global purchasers concerned with various similar standards such as DETI, BSCI, WRAP, FLA, SA8000, the China National Textile and Apparel Council (CNTAC) formulated China’s own CSR standards - CSC9000T management system (China Social Compliance for the Textile & Apparel Industry). CSC9000T is based on Chinese laws and regulations and relevant international conventions and also has Chinese characteristics. It plays an important role in facilitating CSR management and practice and building a harmonious society. It has similar standards with SA8000 including child labour; forced labour; health and safety; freedom of association and the right to collective bargain; discrimination; disciplinary practices; working hours; compensation. Meanwhile, it also represents Chinese characteristics. For example, considering the fact that textile and apparel industry in China mainly employs migrant female workers and there are many problems about employment contracts, CSC9000T gives specific requirements and guidance in these areas with the purpose of protecting the rights of employees.

**Stationary Industry**

S1’s CEO thinks CSR is “not a simple and unplanned one time investment and philanthropy but a long term, periodic and sustained engagement which will impact on the sustainable development of our company”. And the CEO of S2 considers that for companies which are not earning much money, there are already many social responsibilities for them to do. If they fully abide by laws such as the Tax Law, Commercial Law, and Labour Law, they have already done well in CSR.

The export of stationary meets ever increasing restrictions in American and EU markets. Some American and EU countries have very serious safety standards for school stationary, equivalent to standards for children’s toys. The US, EU and all have different standards for stationary. EN71-3 is the EU standard; UK S12406 is the standard for the UK; ASTM F936 is the US stationary standard.

**Information Analysis**

According to my research in the electrical and electronic equipment industry, the clothing industry, the stationary industry, the CSR concept is becoming more and more accepted by exporting companies in these three industries. When asked whether they have ever heard of SA8000, interviewees expressed their knowledge about SA8000 and also illustrated that the auditing standards were quite similar to SA8000. All six companies are required to meet CSR standards in order to enter the US, Europe Union and Australia. The requirements include product quality; consumer safety; environment protection; protection of employee rights; good employee working conditions; compensation for employees; regulated working hours. The six companies are trying their best to comply with these standards because it will directly affect the export of their products. If they can’t meet the customers’ requirements, then orders will not be placed. As a result, the turnover and profit will be affected.

At the same time, the companies in these three industries both large and small are experiencing increasing CSR requirements. They are required to correspond with certain regulations and Directives set by different countries. In the mean time, they receive audits from foreign clients especially Fortune 500 corporations. Therefore, the impact of CSR on large and small companies is almost the same. However, compared with small companies, large companies receive more
audits from clients and they are more vulnerable to negative effects. Nevertheless, CSR implementation in China also has advantages for large companies as they have more capital to invest in CSR. To some extent this will help to build barriers to entry and prevent small and unqualified companies from competing.

Conclusion
The Positive Impact of CSR Implementation
First and foremost, it is very easy and obvious for employees to feel the change and improvement. Second, customers are ensured high quality and safe products which are socially responsible and environmentally friendly. Third, the benefits to communities are also guaranteed. Companies’ influence on the environment, including waste disposal, chemical disposal and emissions, is an important part of the auditing process. Fourth, because of the sheer size of the country and its economy, CSR practice in China will have a positive impact on the global environment.

CSR implementation will have a positive impact on the image of “Made in China”. The reputation of “Made in China” is important for every Chinese company. If consumers boycott “Made in China”, Chinese companies will suffer greatly from it. Therefore, direct CSR engagement for companies is urgent before it is too late.

Problems of Implementing CSR
There are many difficulties for exporting companies to be fully in line with the standards of customers. It will inevitably influence the export practices and the profit of the export oriented companies. First of all, the most important impact of CSR on Chinese producers is the increase in cost. Second, the number of approvals and audits required for different clients incurs significant expense and investment for the Chinese export companies. America, Europe, Japan and Australia all have different regulations and standards for suppliers that need to be adhered to by the exporting companies. Third, for some small and medium sized companies, which represent the large majority of enterprises and account for a significant part of employment in China (United Nations 2007), the various requirements of customers may become barriers to market entry, because small companies have limited capital to invest into production, and are less capable than larger companies of achieving economies of scale to reduce costs. Moreover, employees’ awareness about CSR needs to be improved. While doing the interviews, the interviewees revealed that sometimes companies will face problems in compensation. When companies pay for insurance for employees, for example, the employees themselves also need to contribute to the fees. However, some employees with less education are reluctant to pay their contribution. Their awareness of self protection is low. Additionally, some companies opportunistically get around the regulations and standards. Faced with various regulations and Directives combined with diverse audit standards, some companies may be using improper ways to overcome these serious requirements. They may bribe the approval organisation and auditors; provide fake documents; induce or force employees to lie to auditors in the auditing procedure. Although companies get the relevant certificates and pass the audit, it does not necessarily mean those companies are socially responsible. On the surface they comply with all the regulations and standards, but in actual fact CSR is not fully implemented.

Facing the Problems
To deal with the problem of cost increases, both Chinese national and local governments should encourage producers to be socially responsible by giving subsidies or reducing tax payments, and the global purchasers should also share the burden of the cost increase with their Chinese supplier. In order to tackle the recurrent approval problem for different clients, government should stress international cooperation, communication and facilitation to establish an integrated international standard of CSR. For small and medium sized companies, they need to rethink their business strategy. With the ever strengthening importance of CSR, they should improve themselves to become a qualified supplier in the global sourcing chain.

With respect to employee awareness of the importance of social insurance, companies have a responsibility to hold lectures and meetings to educate their workers and let them understand what their rights are and what they can do to protect those rights.

In the mean time, the evasive action of companies should be prohibited. Government needs to impose a strict control over bribery and prevent illegal relationships between companies, auditors and approval organisations. At the same time, employees need to be aware that by being forced and induced to cheat auditors, they are infringing their own rights in the work place. Chinese companies should try to chase the hearts of consumers rather than their wallets. China, as the workshop of the world, makes thousands of products for the global market, nevertheless only a few companies have built their own brand image.

**Limitations of this Research**

The CSR concept has developed in western society over a long period. It came into being due to a combination of the consumer movement, labour movement as well as Great Depression in the developed countries. However, awareness of CSR in China started less than 20 years ago. Although it could be argued that during the period of centrally planned economy China already had CSR, the essential meaning is different. In a centrally planned economy, a company is a part of government and its main obligation is social responsibility rather than making a profit.

Due to limited time, only three industries and six companies were studied. The research should now be extended to a wider scope with more industries and companies involved. At the same time, the three sectors are mainly labour intensive industry. Further research should explore the CSR requirements of other industries such as high-tech industry or the service sector, and compare whether there is any difference in CSR standards.
Reference


