

INTEGRATING STRATEGIC CSR INTO LOCAL RESPONSIVENESS: LOOKING
INWARD AND OUTWARD FROM CHINA

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ABSTRACT

As businesses continue to expand and compete across borders, new interfaces emerge in the global division of labor such as off-shoring activities between parent firms and their foreign subsidiaries or supply chain operations between multinational enterprises (MNEs) and their host-country suppliers. While off-shoring provides an opportunity for firms to gain comparative advantage through low cost production factors, such as labor and natural resources, it has also caused rising public concerns over ethical, social, and environmental problems in the globalized economy, most notably in the host-country context where institutional rules and regulations are relatively underdeveloped. Meanwhile cross-cultural research and literature on ethical orientations and corporate social responsibility (CSR) approaches are relatively underdeveloped. Most organizations have not figured out how to line CSR activities with their business strategies (Porter & Kramer, 2006). Against this background, this article explores two emerging factors in the dynamic institutional environment of China: trends in government directives (i.e., prioritizing sustainable development as compared to the past focus on fast quantitative growth based on GDP), and growing competitive pressures for MNEs to integrate CSR into their firm-industry specific operations (e.g., green logistics, ethical labor practices, eco-friendly sourcing, carbon footprint reductions), both are largely driven by pressing issues over corruption, unfair labor practices, overuse of resources, environmental pollution, and the like. Firm-industry specific CSR approaches identified shed light on how MNEs endeavor to adapt for balancing cost and positive contributions through strategic CSR. Integration of suppliers into the parent-firm CSR guidelines and support programs stand out as a differentiation strategy for MNEs operating in China, reflecting a collectivistic CSR orientation, such as involving and assisting suppliers as in-group members. Practical recommendations are provided in relation to potentially cutting cost, building good brand reputation, fitting into the changing institutional environment, and integrating strategic CSR initiatives into local responsiveness and global leadership. Suggestions for future research are discussed.

Key Words: corporate social responsibility, sustainability, local responsiveness, supply chain, institutional environment, China

INTRODUCTION

As businesses continue to expand and compete across borders, new interfaces emerge in the global division of labor such as off-shoring activities between parent firms and their foreign

subsidiaries or supply chain operations between multinational enterprises (MNEs) and their host-country suppliers. While off-shoring provides an opportunity for firms to gain comparative advantage through low cost production factors, such as labor and natural resources, it has also caused growing public concerns over ethical, social, and environmental problems in the globalized economy, most notably in the host-country context where institutional rules and regulations are relatively underdeveloped. Traditionally sweatshop practices were identified with labor intensive low-skill brands such as GAP and Nike in overseas apparel and shoe manufacturing, while more recent headlines began to spotlight capital intensive high-tech brands like Apple. The worldwide financial crisis has further heightened the pressures from multiple stakeholder groups for corporate social responsibility (CSR) as reflected in the Occupy movement. Unfortunately, research and literature on ethical orientations and CSR approaches across borders are relatively underdeveloped. Most organizations have not figured out how to line CSR activities with their business strategies (Porter & Kramer, 2006).

Critics argue that CSR efforts are oftentimes counterproductive for two reasons (Porter & Kramer, 2006). First, they pit business against society, when in reality the two are interdependent. Second, they pressure companies to think of corporate social responsibility in generic ways instead of in the way most appropriate to their individual strategies. The prevailing approaches to CSR are so disconnected from corporate strategy as to obscure many great opportunities for companies to benefit society. Comparative studies are even more difficult, rare and still emergent. There are “creeping parochialism” (Daft & Lewin, 2008) and unbalanced geographical distribution of CSR research (Kolk & Tulder, 2010; Maignan & Ralston, 2002; Rodriguez, Siegel, Hillman, & Eden, 2006). Hence there is a marked knowledge gap regarding cross-cultural differences in the desirability, stakeholder priorities, and driving principles of

CSR. Against this background, the present article explores two emerging factors in the dynamic institutional environment of China, one of the leading emerging markets in the world economy: trends in government directives (i.e., prioritizing sustainable development as compared to the past focus on fast quantitative growth based on GDP), and growing competitive pressures for MNEs to integrate CSR into their firm-industry specific operations, including supply chain management (e.g., ethical labor practices, green logistics, eco-friendly sourcing, carbon footprint reductions). Both emerging factors are largely driven by pressing social and environmental issues coupled with corruption, unfair labor practices, overuse of resources, environmental pollution, and the like. The second half of the article provides firm-industry specific cases to illustrate how MNEs in China are adapting to meet the government targets while balancing cost and competitiveness through their firm-industry specific CSR initiatives.

THE CHANGING LANDSCAPE OF THE WORLD ECONOMY

Over recent decades, the volume of international trade and FDI (foreign direct investment) has increased dramatically through trade liberalization and accelerated economic globalization, bringing companies and their managers into ongoing contact with diverse employees, business partners, competitors, consumers, and communities around the world. The prevalence and profound impacts of globalization can be attributed to the growing number of countries, markets, and institutional settings that have followed one another to deregulate and open up to multinational and international firms, such as China's open-up policy since the late 1970s, the neo-liberal wave across Latin America in the 1980, and the emerging markets like Brazil, Russia, India, China and South Africa, known as the BRICS that have not only gained

rapid growths of GDP (gross domestic product) through globalization but have also served as a locomotive engine for the world economy. This trend has significantly changed the landscape of international business and global competition. First and foremost business and society have become increasingly interwoven. Business executives, policy makers, and academic researchers alike have displayed increased interest in the relationship between business and society. Second, firms are ever more under pressure to play a positive and responsible role in places and communities where they operate and compete, and thus contribute to more sustainable development. This applies most notably to multinational enterprises (MNEs), given their global influence and activities pertaining to a variety of issues, stakeholders, and institutional contexts in both home and host countries (Kolk & Tulder, 2010).

Both scholars and business practitioners recognize the difficulty in globalizing the existing CSR concepts (e.g., McWilliams, Siegel & Wright, 2006). It is particularly challenging to align CSR with a firm's global strategy; however, addressing economic, social, and environmental goals simultaneously, the so-called triple bottom-line benefits both the firm and society because the firm brings unique assets and expertise to improve the competitive context of the business environment including better quality of life in the local community (Yang, Colvin & Wong, 2013).

It is beyond the scope of the present study to develop a consistent CSR definition and construct. In line with some exiting literature, the study defines CSR as “the commitment by organizations to balance financial performance with contributions to the quality of life of their employees, the local community and society at large” (SHRM, 2007: vii). This definition is consistent with McWilliams and Siegel (2001: 117) that “CSR means going beyond obeying the law.” A socially responsible firm goes beyond compliance and engages in actions that appear to

further some social good, beyond the interests of the firm and that which is required by law. Such CSR actions may include adding social and environmental features to products or production processes (e.g., devoting resources to R&D in environmentally friendly product and technology, green logistics, etc.), and adopting progressive human resource programs (e.g., nurturing sound labor relations, embracing CSR values in organizational vision, culture and codes of conduct, supporting employee voluntary activities for a social cause, etc.).

CSR STATUS AND EMERGING TRENDS IN CHINA

With rapid economic growth over the past three decades, China has surpassed Germany and Japan to become the world's second largest economy in terms of GDP. However, in terms of per capita income, China remains as a developing country, being ranked 92 out of 180 countries measured by the World Bank (2012). Dramatic changes have been taking place in the process of trade liberalization, deregulation, privatization, and urbanization. Concurrent with China's ongoing economic reforms, open-up policies, and rapid annual GDP growth, which have lifted millions of people out of poverty, much of the traditional welfare programs at the workplace and social responsibilities under the government have been transferred to the private organizations but are far from being fulfilled. Given the relatively underdeveloped institutional rules and lack of enforcement, a variety of pressing issues have come to the fore such as bribery and corruption, unethical labor practices, overuse of resources, environmental pollution, to list a few. It has been increasingly recognized that while the rapid annual GDP growth in the past three decades has named China a leading emerging market in the world and a lucrative off-shoring destination for MNEs, there are growing worries about sustainability and social justice as China grapples with

pressing problems such as severe pollution, intensive energy use, resource depletion, and widening social economic disparities across the country. Two trends have emerged in the dynamic institutional environment of China: a national strategic shift in the government directives (i.e., prioritizing sustainable development as compared to the past focus on fast quantitative growth based on GDP numbers), and growing recognition of the strategic importance for MNEs to benchmark and integrate local-responsive CSR into their firm-industry specific operations (e.g., fair labor practices, internal and external human capital development, integrating CSR standards and practice into supply chain management, green logistics, eco-friendly sourcing, carbon footprint reductions).

Strategic Trends in China's Dynamic Institutional Environment

China's focus on growth is shifting from quantity to "higher quality growth", with key themes in sustainable growth, moving up the value chain, reducing disparities, scientific development, environmental protection, energy efficiency, and domestic consumption (KPMG China, 2011). Consumers in China are increasingly focused on eco-friendly products and services, ethical labor practices, and carbon footprint reductions. The number of those in China using sustainability criterion in their purchasing choices is reported substantially higher than the 16% in the U.S. and the U.K. (AMCHAM Shanghai, 2012). Related regulations gradually emerged in different industries. For example, the China Banking Regulatory Commission released the Green Credit Guidelines in 2012, which makes green aspects mandatory and linked to licensing agreement (Anonymous, 2012). Serious efforts have also been made to get companies compliant with the international SA8000 (Social Accountability) standard. China has also worked with the European Union to set up the China Social Compliance (CSC9000T)

standard for the textile industry (Anonymous, 2009). Due to the scandals in medicine, a call for providing a transparent mechanism in the pharmaceutical industry has been issued and advertising agencies are also asked to follow the guidelines in preparing more trustworthy commercials in promoting medical products. Meanwhile, Chinese citizens are empowered as the media is heavily reporting consumer complaints and lawsuits against companies for their irresponsible decisions (Anonymous, 2009; Wong, 2009).

As China evolves from a low-cost production site to a prospective developed economy, it aspires to become a leading country, moving from “China manufactured” to “China innovated”. China also aims to take a leap in making its own mark on corporate social responsibility (Zu and Song, 2009). Social responsibility observers believe that corporate responsibility is a precondition for China’s domestic stability and a moral mandate as an emerging superpower. A typical approach starts with government standards and close monitoring of business practices (Zadek, 2012).

China’s Twelfth Five-Year Plan makes a turning point from the country’s previous focus on the headline GDP growth to now prioritizing strategies and measures to ensure long-term prosperity for the entire nation (KPMG China, 2011). To many MNEs, what once merely a discussion of export-oriented factors, such as low-cost manufacturing and supplier selection, now involves a greater variety of considerations such as prioritizing sustainable development through positive contributions to CSR initiatives, balancing cost and the rise of green consumer preferences, enforcement of penalties for non-compliance, and the need for a CSR strategy to align one’s key business competences with the host-country government directives and consumer preferences (AMCHAM Shanghai, 2012). Table 1 illustrates the emerging trends and some key

factors that influence CSR priorities in China and their cost implications to firms doing business in China.

Table 1
Trends and Key Factors in China's Institutional Environment

Government Goals Affecting Strategic CSR in Environmental Performance	Statutory Welfare and Insurance Provisions at the Workplace	Key Consumer Preferences	Rising Costs
<ul style="list-style-type: none"> ▪ Cut carbon intensity by 40-45% from 2005-2020 ▪ Reduce energy use per unit GDP to 16% by 2015 ▪ Increasing non-fossil fuel to 11.4% by 2015 ▪ Decrease pollutants chemical oxygen demand (COD) and sulfur dioxide by 8% by 2015 ▪ Increase forest coverage by 1.3% by 2015 ▪ Encourage and support green technology advancement by investing up to RMB4 trillion (US\$600 billion) by 2015 	<ul style="list-style-type: none"> ▪ Healthcare ▪ Occupational safety and health ▪ Retirement ▪ Unemployment ▪ Maternity protection ▪ Housing accumulation fund 	<ul style="list-style-type: none"> ▪ Sustainable input materials and eco-friendly sourcing ▪ Fair labor practices ▪ Sustainable manufacturing practices ▪ Emission and water treatment ▪ Quality oversight and management ▪ Product safety 	<ul style="list-style-type: none"> ▪ Labor ▪ Raw material cost in specific segments ▪ Transportation both domestic and international ▪ Investment and overhead costs for new factor development ▪ Foreign exchange rate movement ▪ Enforcement of penalties for non-compliance

Linking Strategic CSR to Local Responsiveness: Doing Business in China

As China became the labor intensive manufacturing center for the world, increased social economic disparities and environmental problems have accompanied its rapid annual GDP growth and have mounted to an alarming level. In the beginning, labor issues were the primary concerns. It started with the supplier and contractor employee work environments and later extended to child labor, compensation, work hours, education, health care, defective consumer goods, toxic waste and emissions, worker suicides, wildcat strikes, and the like. These negative impacts have led to serious questions and public concerns over sustainable development and social justice. At the same time, China has been transforming from once a merely low-cost manufacturing site and an export-driven economy to a new orientation towards quality growth and innovation.

China's Twelfth Five-Year Plan and the government new policies on sustainability are dictating business leaders to look inward and outward for balancing the cost directive and positive contributions through CSR initiatives. It is imperative for companies to align their core business competences and practices with local-responsive CSR strategies. Table 2 exemplifies how a few U.S.-headquartered MNEs are adapting and moving towards sustainable sourcing and operation processes in China, based on a report from the American Chamber of Commerce in Shanghai (2012) and the basic CSR information gathered by the present study.

As shown in the examples, incorporating strategic CSR in one's core business competences and operations in China has proven to be successful practices, not only in compliance with the government directives, but also as a win-win solution to benefit both the socially responsible companies (e.g., enhanced competitiveness through improved reputation, energy-efficient sourcing, operations and logistics, cost-saving supplier coordination and integration into CSR practices, partnerships with universities, government units and global institutions in local-responsive CSR research projects, and positive impact on the sustainability policy-making by the local government agencies) and the local communities (e.g., improving sustainability, positive contributions through energy-saving operations, green logistics, supplier compliance in environmental friendly practices).

It is also recognized that integrating and closely supervising suppliers in CSR are vital to quality management and wage gap reduction – the gap between what employees are paid and what they are supposed to be paid. Poor production planning, waste and higher costs are significantly related to pay gaps and unfair labor practices. Conversely, the saving gained from better planning, partner improvement in eco-friendly production and logistics can help reduce the wage gap and improve the work environment across the supply chain. This will help the MNEs

meet the government objectives concerning social harmony and the consumer demands for fair labor practices.

Table 2
Linking Business Competences to CSR Trends and Demands in China

MNEs	Core Competence and Local CSR Partnership	Sourcing and Procurement	Manufacturing and Operations	Logistics and Transportation
Haworth Corporation	<ul style="list-style-type: none"> ▪ Designs and manufactures adaptable workspaces, including raised floors, movable walls, office furniture and seating ▪ Incorporating CSR initiatives into supply chain processing and operations 	<ul style="list-style-type: none"> ▪ Integrating reusable packaging into supplier coordination and monitoring 	<ul style="list-style-type: none"> ▪ Streamlined operations in China by integrating CSR into supply chain 	<ul style="list-style-type: none"> ▪ Strengthened the corrugated cardboard used to ship in specific component materials ▪ Breaking down and returning the packaging to suppliers ▪ Reduced paper consumption while saving cost on truck usage
Dow Chemical (China) Investment Company Ltd.	<ul style="list-style-type: none"> ▪ Manufactures plastics, chemicals, and agricultural products ▪ Signed with China's Ministry of Environmental Protection and the United Nations Environment Programme (UNEP) a joint project to collaborate on promoting chemical safety and emergency preparedness in the chemical industry in China ▪ Signed an agreement to conduct a CSR research project with the Center of Public Administration and Management of Peking University. Findings of the research will be submitted to the State Council as senior Chinese leadership deliberate and formulate policies on CSR 	<ul style="list-style-type: none"> ▪ Integrating sustainable practices in purchasing policies and supply chain ▪ Insuring that all partners follow Dow's standard of sustainable practices 	<ul style="list-style-type: none"> ▪ Using Dow S4TAR Award Program to promote sustainable business growth for both Dow and any operators along its supply chain 	<ul style="list-style-type: none"> ▪ Uses secondhand intermediate bulk containers instead of new IBCs to transport and store fluids and bulk materials ▪ Every IBC is recycled 5-7 times before disposal
Caterpillar Inc.	<ul style="list-style-type: none"> ▪ Heavy equipment, engines, and financial services ▪ Partnership with host-city administration to establish an R&D center ▪ Awarded Gold certification for Leadership in Energy and Environmental Design in new construction category (LEED-NC) 	<ul style="list-style-type: none"> ▪ A strong focus on environmental impact and energy efficiency design 	<ul style="list-style-type: none"> ▪ Taken extra steps to ensure energy efficiency in local factories, which has been proven to be good business practices beyond direct energy saving ▪ So that being able to avoid disruption to operation due to power brownouts and blackouts 	
FedEx Express	<ul style="list-style-type: none"> ▪ The world's largest express transportation company ▪ A delivery network reaching more than 400 cities in China 	<ul style="list-style-type: none"> ▪ Using energy-efficient airplanes for global business, while ▪ Conserving fuel and preserving the environment 	<ul style="list-style-type: none"> ▪ Using 18% less fuel for a larger payload, while ▪ Reducing emissions per ton of cargo ▪ Lower fuel consumption per pound of revenue payload and thus lower maintenance costs 	<ul style="list-style-type: none"> ▪ Continuously upgrade deliver fleet to reduce fuel assumption and truck emissions ▪ Introduced energy-efficient Boeing 777F in Shenzhen, Hong Kong, and Seoul ▪ Replacing Boeing 727 with 757s, 47% lower fuel assumption and lower maintenance costs

DISCUSSION AND CONCLUSION

This study expands the existing research and literature on strategic CSR across borders in three aspects. First it explores the emerging trends in the dynamic institutional environment of China, and by so doing it helps firms gain a better understanding of both business opportunities and CSR expectations in the country. Second, firm-industry specific CSR approaches identified and discussed in the study shed light on how MNEs in China are striving to adapt for balancing cost and positive contributions through strategic CSR. Firms doing business in China can benchmark and develop their own local-responsive CSR practices that closely align with their strategic goals in the triple bottom-line performance. Third, integration of suppliers into the parent-firm CSR guidelines and support programs stand out as a differentiation strategy for MNEs operating and competing in China. Perhaps besides the government new emphasis on sustainability and quality growth, China's collectivistic cultural norms and long-term orientation significantly influence CSR priorities in the country, which offers strategic implications as firms assess and formulate their local-responsive CSR initiatives, such as involving and assisting local suppliers as in-group members, and establishing partnerships with local universities and government institutions in cooperative research on sustainability and CSR policies. Being able to provide one's inputs in government policy-making towards quality growth, innovation, and social harmony will serve as a competitive advantage.

This study also provides practical implications and recommendations. First, understanding host-country government CSR policies, priorities and initiatives are vital for firms to adapt timely and gain competitive advantage. Second, integrating strategic CSR into local responsiveness is imperative for firms to develop potential win-win solutions to emerging

opportunities and challenges pertaining to cutting cost, building good brand reputation, fitting into the changing institutional environment, and making positive contributions to the larger society.

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