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The Roots of Corporate Philanthropy in China

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Abstract: Business and society are inextricably linked, and corporate philanthropy is an important constituent of this link. Depending on context and culture, considerable variations of roles exist that societal stakeholders occupy or expectations that they have of business. In this paper, we examine how philanthropy connects to various historical, political, cultural, social, and economic dimensions in modern-day China to understand how philanthropy occupies important functions conventionally associated with corporate responsibility (CR). Even though philanthropy has fallen out of favor in the international CR literature, it is nevertheless part of contemporary China, deeply rooted in the past and in contemporary relations between business and society. By examining historical and contemporary factors that contribute to how philanthropy is shaping understandings of the responsibilities of business to society, we will show in this article the rich repertoire of registers that business and society can draw on when defining roles and expectations, and that the choice of register is largely driven by creativity and pragmatism. To understand the role of philanthropy in China today, one must understand the systemic relations between state and business, and the all-encompassing and state-managed drive toward economic and social development. By presenting the importance of philanthropy and how it helps to understand the increasingly powerful role of Chinese business in local and global contexts, we hope to encourage a closer examination of philanthropy from a non-Western perspective in general, as well as policy-relevant and change-oriented academic research on corporate philanthropy in China in the context of CR in particular.

Keywords: Corporate social responsibility, philanthropy, politics, Confucianism, communism, modernity, China

Introduction

The responsibilities of corporations to society are conventionally associated with business ethics, and Corporate Responsibility (CR) is most frequently understood as the dominant framework to describe the responsibilities of business to society. Within this framework, various dimensions have been established since the 1970s, most notably by Carroll (1979; 1991), who presented a quadripartite model that consists of economic, legal, ethical, and philanthropic responsibilities. For several reasons, the latter has fallen out of favor. First, philanthropy is often viewed as decoupled from core business activities in that charitable donations do not reflect the extent to which a corporation is socially responsible (Barnard, 1997; CRCC Asia, 2014; Leisinger, 2007; Lin-Hi, 2010; Waldman, Kenett, & Zilberg, 2007; Whitehouse, 2006). According to this view, CR is distinct from philanthropic donations in that it connects to stakeholder expectations and the management of economic, social, and environmental impacts associated with organizational behavior (Leisinger, 2007; Rowe, 2006). This position implies that philanthropy is peripheral to business strategy and practice, even detracting from a profound CR commitment. Second, philanthropy is considered unsustainable as a form of CR due to its voluntary and capricious nature (Hopkins, 2004; Barnard, 1997). Understood in this way, philanthropy tends to reflect personal values and preferences of owners and senior managers (Barnard, 1997; Leisinger, 2007), which render philanthropic activities erratic, less strategic, and prone to contextual and personal changes. Third, as a CR domain, philanthropy is often connected to image management, posturing, or green washing. According to this position, philanthropy is primarily used as a marketing strategy (Lin-Hi, 2010) to gain market share or to deflect attention from other and potentially harmful corporate activities. Accordingly, philanthropy is viewed as a "superficial manifestation of CSR" (Waldman et al., 2007, p. 1), even contributing to public suspicion or negatively impacting on the reputation of a corporation (Barnard, 1997; Dorfman, Cheyne, Friedman, Wadud, & Gottlieb, 2012; Whitehouse, 2006). Because of these and other reasons, philanthropy has been considered peripheral or in opposition to profound commitments to CR, which should – at least from the perspective of the academic literature on CR – be part of long-term, strategic, systematic, systemic, and comprehensive business practices. Despite this well-developed critique of philanthropy, we will show in this paper that philanthropy in China is an important driver of responsibilities that businesses are expected to have toward society and the state. The complex and inextricable relations between business, society, and the state in China are grounded in history, identifiable on a micro-level in personal interactions between individuals and on a macro-level in interactions between the government and business enterprises.

To expand and better understand the multi-dimensionality of philanthropy, von Schnurbein and Timmer (2015) suggest that philanthropic initiatives are guided by two main criteria, namely, whom to support, and how to support them. Along these two axes, they classify philanthropic initiatives according to four types: Grant-Giving, Skill Development, Mobilization, and Investment (see figure 1). According to the authors, Grant-Giving is the most commonly practiced form of philanthropy, consisting primarily of financial donations such as scholarships, funding contributions, or emergency aid. Occupying the top left quadrant of the diagram in figure 1, Grant-Giving is primarily associated with providing financial support to individuals or organizations. Skill Development is also primarily concerned with individuals or organizations. Instead of focusing on financial assistance, however, these types of philanthropic initiatives deal with capacity building, empowerment, and service provision. Von Schnurbein and Timmer observe that philanthropic projects often require collaborations or partnerships between multiple stakeholder groups, such as NGOs and philanthropic foundations. These philanthropic activities aim to foster the skills and service capabilities of their partners to encourage effective cooperation, transition, and handover of projects and initiatives. In order to achieve this, philanthropists may leverage not only their financial assets but also other resources, including their networks, infrastructure, or reputation.

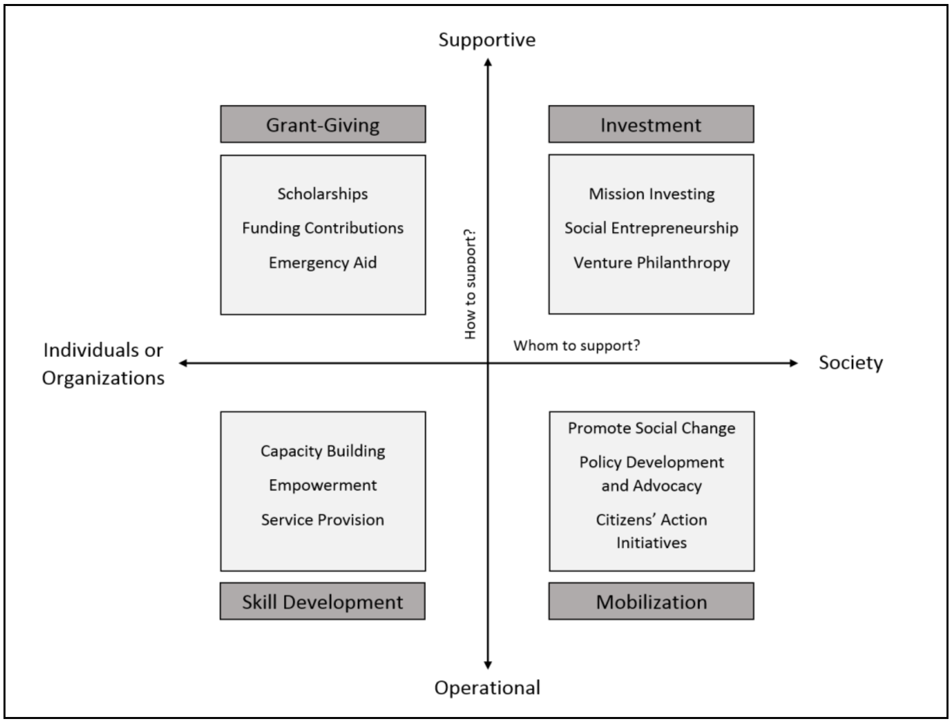

Figure 1. Von Schnurbein and Timmer's typology of philanthropy (2015, p. 178), translated from the German original

Grant-Giving and *Skill Development* usually focus on the micro-level, referring primarily to individuals or organizations. Macro-level philanthropic initiatives, in contrast, aim to contribute to large-scale social change. These societal philanthropic initiatives are achieved through what von Schnurbein and Timmer label Mobilization. Such philanthropic projects and initiatives finance think tanks, surveys, or public events aimed to initiate or shift political debates within a society. Instead of supporting or complementing existing state policy, a change in policy or public expenditure in the direction of the philanthropist's chosen target is its aim. Mobilization is commonly practiced in the United States but rare in most other national contexts, where philanthropy is often associated with the private sector, while lobbying against the state is not condoned. The final type of philanthropic initiatives aims to support society through Investments and includes mission investing, social entrepreneurship, and venture philanthropy. According to von Schnurbein and Timmer, this type of philanthropy has expanded in recent years as philanthropist, philanthropic foundations, and large corporations have begun to experiment with new economic methods and approaches to pursue non-profit purposes. Generally, philanthropic Investments provide startup capital to social enterprises, which seek new and innovative approaches to solving social problems through products or services. Other core aspects of this type of philanthropy include the competitive selection of projects or organizations to be funded based on the formulation of donor-specified objectives.

The taxonomy provided here illustrates that philanthropy can serve many strategic purposes, depending on the goals and chosen targets of the philanthropic agent. Notwithstanding these goals, there exists a wide range of external expectations of why and how large corporations can or should engage in philanthropic activities. As China has risen in power and stature, so too have philanthropic expectations for Chinese business to engage with society increased. However, little is known about what these expectations are or the various factors that contribute to shaping them. In this paper, we delineate some of the dimensions, which have created, influenced, and now sustained a corporate philanthropic environment in China. Our goal is not only to describe the importance of philanthropy concerning business ethics in China but also to identify some of the most important markers linking business and society. We do this in three parts: First, we examine the historical influence of Confucianism to explore the potential impact it has on contemporary business values and philanthropic practices. We then explore the evolution of philanthropy in association with the Chinese Communist Party to highlight some of the shifts of power and responsibilities as the Chinese leadership integrated business and economic reforms. Third, we identify some of the main economic, social, political, and global developments that have contributed to China's rise as a global power to illustrate how these developments in their own right have created state-centered expectations toward, and thus contribute to, certain business activities understood as philanthropic in the Chinese context. In other words, economic and social developments are reciprocally related to the state's increasing commitment to foster business activities that are understood as philanthropic from a Chinese value system. Overall, we will show that philanthropy has a rich and complex ideological, political, and social base in China. It provides the business environment with numerous opportunities to adapt their roles and behavior to foster mutually beneficial economic and social development in China.

Philanthropy and Confucianism

Confucianism and Contemporary China

Three virtues form the basis of morality, according to the philosophical and ethical system of Confucianism: humanity (*Ren*), ritual propriety (*Li*), and filial respect (*Xiao*). Based on these, humanity is defined as the essential goodness and love for others. For more than 2500 years, these principles have been part of Chinese culture. The popularity of Confucian tradition has risen and fallen over centuries, dynasties, and political ideologies. However, many researchers argue that Confucianism continues to play an important role in modern Chinese society (Hu, 2013; Low, 2011; Shoujin & Caccamo, 2013; Tu, 1991, 2007). Bell (2010) gives three examples: In the first, he notes that Confucianism has come to enjoy widespread political and governmental support in recent years as political figures incorporated Confucian phrasings and beliefs into political discourse to encourage and reproduce the "hard-won peace and stability that underpins the country's development" (ibid, p. 8). He cites the former President Hu Jintao who, in his 2005 speech to the National Congress, stated: "Confucius said, 'Harmony is something to be cherished'" (ibid). Furthermore, Hu frequently made reference to a "harmonious society" or "harmonious world", which builds on Confucian values and which underpins many domestic and foreign policies. According to Bell, this has several advantages. It reifies the government's concern for all its citizens by highlighting the importance of a harmonious society, while also calling for peace and harmony in a society faced with increasing inequality. It also pacifies international fears about China's rise as a global superpower. A second example is the increasing global reach of Confucianism through the establishment of Confucius Institutes at universities worldwide. Overseen by the Hanban, these non-profit public institutions are intended to "become a platform for cultural exchanges between China and the world, as well as a bridge reinforcing friendship and cooperation" (HanBan-Confucius Institute, 2014). Since the first Confucius Institute was set up in 2004, more than 370 institutes in 100 countries have been established (http://confuciusinstitute.unl.edu/institutes.shtml). It is not only the global traction and domestic political praxis that are noticeable examples of contemporary Confucianism in practice. Confucian values resonate within Chinese society at large. In terms of mainstream consumption, there is the example of the national star, Yu Dan, who wrote a self-help book based on the Analects of Confucius (2006), which sold more than ten million copies, three million in the first four months. Bell also notes that courses on Confucianism have become some of the most popular classes in Chinese universities. He cites Chen Lai, professor of philosophy at Beijing University, who claims that more than ten million children are studying Confucian classics in China today. Finally, Bell provides several examples of widely practiced Confucian cultural values evident in modern China. For instance, "[t]he idea that rulers should be morally upright has Confucian roots, as does the practice of invoking model workers who are supposed to set an example for others [and] that Confucian values still inform ways of life, especially regarding family ethics. Filial piety, for example, is still widely endorsed and practiced" (ibid, p. 10). These examples illustrate how salient certain Confucian ideas have become in various societal, political, and corporate contexts. But what is Confucianism and how is it received? In order to answer these questions and to understand how Confucianism connects to philanthropy in China, we first need to examine briefly this philosophical and ethical system itself.

The Confucian Self

In ancient China, the concept of personhood was not shaped within the individual person but from one's humanity or *Ren* (Bockover, 2010). Accordingly, a person develops "by learning how to stand in dutiful relation to others" (ibid, p. 307). Based on Confucian principles, a person is defined in relation to the roles she or he fulfils as part of a larger community, and personal development is fostered through ethical behavior toward others "by acting civilly and humanely … or more specifically, the idea of being – or becoming – a person [through] the idea of being a good – or virtuous – person" (ibid). The purpose of the Confucian Self is to actualize moral potential through the self-cultivation of ethics and responsibilities in relation to others. This is accomplished by combining the principles of *Li* and *Ren*:

> Roughly translated, *Li* is [the] holy rite, ritual propriety, ceremony; it is the appropriate, civilized, authoritative, even sacred conduct by which people mutually recognize and respond to each other in their distinctively human roles. The human way (rendao) is a way of convention that both expresses and aims to further realize *Ren*, the natural human goodness, benevolence, nobility, authority, or humanity 'in' all of us. (Bockover, 2010, p. 309)

These concepts are not clearly distinct from one another, and it is actually easier to think of *Li*, or the rites of appropriate conduct, as expressions of *Ren*, our 'responsibility' to act with goodness to others (ibid). Bockover adds that "this is why one translation apt for *Ren* and characterizing the truly human (*Ren*) person, is responsibility. A *Ren* person recognizes and responds to others as persons, or is responsible for carrying out actions appropriate to those relationships" (ibid). According to Confucian principles, personhood is a function of interdependence, and it is cultivated through the social and spiritual accomplishments of people's interpersonal interactions. As she puts it, "We come to the world with the raw sacred material to be shaped into persons, but only through *Li* and *Ren* – diligent, responsible action to others – do we become true persons". Accordingly, we are continuously interdependent and part of a relational community. The responsibility we have toward others and how we choose to act and interact, therefore, defines and shapes who we are, and within this responsibility lies the potential to make us virtuous. Relationships play an integral part in the Confucian Self because they are the main path through which *Li* and *Ren* are practiced and integrated with one another. Although modern society is defined by a multitude of complex relations with significant others, Bockover identifies five that are central in the Analects: father – son, husband – wife, older brother – younger brother, ruler – subject, friend (teacher) – friend (student). The following figure summarizes and expands the thus created reciprocities between key relationships according to Confucian philosophy:

Table 1
Five Relations and Ten Reciprocal Values under Confucianism

RULER	Benevolence Loyalty	SUBJECT
FATHER	Righteousness Filial piety	SON
HUSBAND	Love Obedience	WIFE
Elder BROTHER	Gentility Humility	Younger BROTHER
SENIOR	Considerateness Deference	JUNIOR

Interestingly, a collective "other" is not implied here but, instead, reference is made to dyads, i.e. between - sons, wives, brothers, subjects, or personal friends. According to Bockover, these relations are significant to how the Confucian Self develops because they form the basis from which people receive their individuality. She argues that, similar to the relationship between ruler and subject, Confucius did not conceive of father, son, or sibling relationships as biological. Rather, these relationships are defined in accordance to the responsibility a person has toward others. "To be a person is to stand in responsible relation to others, to learn and perform the roles that are appropriate to those relations (to learn the *Li*)" (ibid, p. 310). Although many people are husbands, wives, fathers, and sons, they are distinguished from each other by the unique nexus of relationships they occupy and the responsibilities attached to these roles, which shape who they are. She explains, for example, that all mothers may share the general duty of caring for their children, but their specific responsibilities will differ depending on context and the other social roles they occupy. The task of the Confucian Self is to learn how to act virtuously within these dynamic and multiple roles, which, in turn, define and develop personhood:

> Like the *Ren* person of the Analects, the virtuous person in the Mencius must become a person by developing into one, by developing virtue in a larger human context. For both Confucius and Mencius then, and once an inner-outer distinction is evoked, personhood develops in having what starts on the 'inside' grow outwardly, positively binding one to others in a virtuous fashion. Anything less is vice or deprivation that squanders the goodness

> basic to our humanity instead of cultivating it. All of us have this responsibility, to cultivate our true nature by becoming the best persons we can be in the various roles that define us. We distinguish ourselves as unique persons in the way that we do this (Analects: 1:15, 2:4, 20:3). … How each of us creatively, personally, takes up the task of literally building a self within the fabric of human community. (Bockover, 2010, pp. 311-312)

Confucianism and Philanthropy

Philanthropic behavior in the Confucian sense may be understood as a natural extension of personal development and of cultivating social relationships: A moral person cares about others (*Ren Zhe Ai Ren*). Scholars frequently connect philanthropy to the Confucian principle of benevolence or *Ren* (e.g. Baidu Baike, 2014; Bolliger, 2014; Hu, 2013; Jian-Wen, 2013; Low & Ang, 2013; Shoujin & Caccamo, 2013). According to Tsu (1912, p.16), for example, Confucius regarded philanthropy as “the distinguishing characteristic of man [and] as one of the fundamental constituents of nobleness and superiority of character”. Philanthropy is a form of self-discipline, a way of cultivating virtue and ethics. People choose to act benevolently not because they feel socially responsible or because they are legally required to do so but because their self is dependent on social cultivation (Jian-wen, 2013).

Attempting to make explicit the connection between Confucianism and modern-day philanthropy and CR in China, Low, and Ang (2013) categorized different Confucian ethics according to how they relate to personal development, relationships with others, and social responsibility.

Table 2

Categorization of Confucian Values into Self-development, Relationships with Others, and Social Responsibility (Low & Ang, 2013, p. 36)

Confucian Ethics	**Self-Development**	**Relation with Others**	**Social Responsibility**
1 Filial Piety(孝, *xiào*)	√		
2 Brotherhood, Peership, and Equality (悌, *tì*)		√	
3 Loyalty (忠, *zhōng*)		√	
4 Trustworthiness (信, *xìn*)		√	
5 Courtesy; Politeness (禮, *lǐ*)	√		
6 Courage (義, *yì*)	√		
7 Character and Integrity (廉, *lien*)	√	√	
8 Shamefulness (恥, *chǐ*)	√		
9 Benevolence (仁爱, *rénài*) and Compassion (同情, *tóngqíng*)			√
10 Peace and Harmony with Others (和平, *hépíng*)	√		
11 Working Hard (勤奋, *qínfèn*)	√		
12 Thriftiness (Frugality) (节俭, *jiéjiǎn*)	√		
13 Perseverance (毅力, *yìlì*)	√		

14 Self-Cultivation (修养, *xiūyǎng*)	√		
15 Self-Discipline (自律, *Zìlǜ*)	√		
16 Reciprocation of Greetings and Favors (恕, *shù*)			√
17 Tolerance (容忍, *róngrěn*)	√		
18 Moderation- Following the Middle Way (適度, *shìdù*)			√
19 Prudence (Carefulness) (谨慎, *jǐnshèn*)	√		
20 Resilience (弹性，弹力, *dànxìng*，*dànlì*)	√		
21 Continuous Learning (不斷學習, *bù duànxuéxí*)	√		
22 Being Ethical (倫理, *lúnlǐ*)			√
23 Honesty and Sincerity (真誠, *zhēn chéng*; 誠實, *chéngshí*	√		
24 Patience (忍耐, *rěnnài*)	√		
25 Impartiality (公正, *gōngzhèng*)		√	
26 Contributing to Society; Social Obligation and Responsibility (社會的義務和責任, *shèhuìde yìwùhézé rèn*)			√
27 Self-Awareness (自知)	√		

According to Low and Ang's classification, personal development is realized through ethics such as integrity, justice, and virtue, including filial piety (孝, xiào), courtesy and politeness (禮, lǐ), righteousness, right conduct, and courage (義, yì), upright, honorable, integrity, and character (廉, lien), and humility and shamefulness (恥, chǐ). Relations with others are defined by ethics such as duty, respect, and interdependence, including brotherhood, peership, equality (悌, tì), loyalty, fidelity (忠, zhōng), trustworthiness (信, xìn), and upright, honorable, integrity, and character (廉, lien). Social responsibility is based on ethics, promoting a supportive and harmonious society. It includes contributing to society, social obligation, responsibility (社會的義務和責任, shèhuìde yìwùhézérèn), being ethical (倫理, lúnlǐ), and the reciprocation of greetings and favors (恕, shù).

The subtle differences between the conceptualizations of Bockover (2010) and Low and Ang (2013) in relation to ethics, personal development, and relationships could be explained in part based on the purpose of their arguments. Bockover examines how the concept of personhood is developed through the practice of Confucianism, while Low and Ang (2013) reflect on Confucian values to account for and encourage particular modern business practices in China, especially in relation to CR and philanthropy. In this regard, Confucian principles make two important contributions to business and management practice. First, building on Bockover's five levels of human relations, Low and Ang (2013) emphasize the importance of work-based relationships. They argue that co-workers who embrace Confucian values establish harmonious work-relations with significant others. By extending familial values to selected social and work relationships, others may be treated like family members, which forms the foundation of codes of conduct and work-related behavior. This has two important consequences: First, by emphasizing cooperation and working together to foster harmonious relationships, people are encouraged to amplify their virtues, which reduces conflict, fosters cooperation, and establishes positive group dynamics and teamwork based on fraternity (Wei, 2010). Second, it renders the concept of family transient and flexible. In its most narrow sense, it includes family members related by kinship but, in a wider sense, it may extend to hometown fellowship, schoolmates, work relationships, an employee, or the nation. The important implication for corporate philanthropy here is that responsibility may be extended to relationships beyond kinship to include social groups, regions, the state, or humanity as a whole.

The second interesting point Low and Ang (2013) make in this regard relates to the role of leadership in business. According to them, positions of power attained through wisdom and talent can be lost without benevolence (*Ren*). With benevolence, positions of power can be maintained or even augmented. However, support of the multitude cannot be maintained if one does not govern the multitude conscientiously (Analects, 15:33; Low, 2011). Thus, power and leadership are connected to responsibility. This framing has significant implications for the philanthropic role-expectations of business leaders. According to Ang and Low (2012, p. 88):

> In Confucius' mind, leaders had an obligation to cultivate themselves morally, to demonstrate filial piety and loyalty, and to act with benevolence towards their fellow men. Therefore, Confucian leadership emphasized correct moral and ethical behavior of both the individual and the government. It underscored the importance of social relationships, justice and sincerity. In Short, it is aimed at creating peace and harmony in a society with social responsibility.

Here, Confucian principles are compatible with notions of philanthropy in general, and CR and corporate philanthropy in particular. They have the potential to promote benevolent and strategic norms and actions toward significant stakeholders within the corporate environment. This is especially evident in the way Confucianism highlights the obligations and responsibilities of leaders in business, as well as how it encourages cooperation and loyalty among workers and employees. Thus, combining Confucian values with modern business methods has the potential to create a powerful dynamic wherein personhood, responsibility, and social relations become the nexus for creating a stable society and philanthropy as one of the main drivers in realizing sustainable economic and social goals. In recent years, some of these values have also become an important part of Chinese political discourse, creating an ideological basis for market reforms that have transformed Chinese society. One such example is the declaration by the Chinese Communist Party (CCP) to 'build a harmonious society' at the 2005 National People's Congress (Lin, 2010). According to Heberer and Schubert (2006, p. 20), this "represents a contemporary revival of the Confucian ideal of the 'Great Harmony' (datong) or 'a society characterized by social equality and political harmony'". As a political tool, Confucianism has been used more recently to instrumentalize and entrench corporate philanthropy, a point we turn to in more detail in the next section.

Philanthropy and Communism

According to Western notions, philanthropy can be defined as voluntary or discretionary activities that are "guided only by business' desire to engage in social activities that are not mandated, nor required by law, and not generally expected of business in an ethical sense" (Carroll, 1991, p.36). This definition makes philanthropy seem at odds with Chinese communism for several reasons. In a conventional sense, private enterprise was either restricted or disallowed due in part to the obligations and responsibilities of the state as the central caretaker of society. Accordingly, state-led social welfare initiatives cannot be understood as voluntary philanthropic activities. To understand how these seemingly contradictory ideas have been brought in line with one another, and how this alignment has created a space wherein philanthropy has become a central social and cultural pillar in modern-day China, it is necessary to examine some of the important developmental moments that made this possible. Although this is not the place to discuss communism in China in detail, we will briefly touch upon several interrelated aspects to sketch the evolution of some of the ideas and practices that connect Chinese communism with philanthropy: first, the foundations built during Maoist rule; second, reform and transformation under Deng Xiaoping; third, the creation of modern-day philanthropy in China; and, fourth, the continued importance of the close relationship between business and Chinese society.

Mao and the Foundations of Communism

After the Chinese communist revolution and establishment of the People's Republic of China in 1949, the CCP promised a socialist and, ultimately, communist society, in which all property would belong to the people; and in which social class would cease to exist. In the period of centralization that followed, the redistribution of wealth was mainly achieved through labor, which became one of the key features of socioeconomic and cultural change (Jeayoun, 2012). Permanent employment and work-based occupational welfare were introduced through state-owned enterprises (SOEs), which were sites not only of production and employment but also the centers of social services, providing cradle-to-grave welfare benefits to workers and their families (Lin, 2010). This included health care, pension schemes, housing, loans and subsidies, meal services, access to education, and child care (Walder, 1986). According to Meisner (2007, p.16, p.13), the period of political, social, and economic reorganization during the first decade of Maoist rule was usually considered successful, leading to:

> [t]he unification of China, the establishment of a national market, the building of a centralized state apparatus and an effective bureaucracy, the construction of a vast infrastructure of roads, railroads, and electrical systems, and the education of the working population.… After a long era of political disintegration and civil war, genuine national unification was achieved. Following more than a century of foreign impingements and invasions, China gained true national independence.

This became the basis for modern economic development, and massive gains in literacy, public health, and education (Meisner, 2007). Despite the well-documented challenges, setbacks, and tragedies, such as the devastating famine resulting from the Great Leap, life expectancy rose from 35 years before 1949 to 65 years by the mid-1970s (ibid). Under Mao's leadership, the CCP built a foundation for a communist society, and it put into place the necessary conditions to ensure rapid economic and social development under the reforms guided by Deng Xiaoping.

Reform and transformation under Deng Xiaoping

By the late 1970s, organizational dependence on state-organized work and welfare overburdened the CCP and China (Walder, 1984). This, in combination with an agrarian crisis, meant that the communist state struggled to provide adequate social programs (Sarkis, Ni, & Zhu, 2011). Under the leadership of Deng Xiaoping, the CCP radically reformulated China's policies to ensure continued economic growth (Heberer & Schubert, 2006). Many labels are used to define the modern reform period that followed, including capitalist (Meisner, 2007), capi-communist (Napoleoni, 2012), neoliberalist (Wang, 2004), guanxi capitalist (Rühle, 2012), or none of these (Xu, 2011). Even though scholars seem to disagree on what to call the shift that took place in the CCP at the time, it is evident that there came about a decisive change in ideology and practice. While the communist leadership continued its commitment to communist ideology, in practice it began to implement a form of capitalist-styled economic pragmatism. This policy shift was encapsulated in Deng Xiaoping's statement in 1980: "The purpose of socialism is to make the country rich and strong" (cited in Meisner, 2007, p. 17), and it may also be observed in the 1982 Preamble to the Law of the Chinese Constitution, which states:

> The basic task of the nation in the years to come is to concentrate its effort on socialist modernization. Under the leadership of the Communist Party of China and the guidance of Marxism-Leninism and Mao Zedong Thought, the Chinese people of all nationalities will continue to adhere to the people's democratic dictatorship and follow the socialist road, steadily improve socialist institutions, develop socialist democracy, improve the socialist legal system, and work hard and self-reliantly to modernize industry, agriculture, national defense, and science and technology step by step to turn China into a socialist country with a high level of culture and democracy.

Meisner (2007) argues that by marrying communist ideology and capitalist modernization, socialism became reinterpreted and aligned with national goals of wealth and growth. Launching the modern reform period, the communist leadership relaxed economic controls, thus stimulating foreign trade and ultimately leading to an unprecedented economic boom that expanded China's GDP ten-fold (Minzer, 2011). While we examine the successes of these market reforms and how China emerged as a global superpower in more detail in the next section, important here is the recognition that business and economic reforms in China evolved philanthropy within the communist landscape, something the CCP incorporated formally into its political agenda. An integral part of the reforms introduced by Deng Xiaoping, for example, aimed to reduce the size and responsibility of the state through the transformation of government functions (Deng, 1983). In an attempt to ease state responsibilities, the reforms made many of the national institutions established during the Mao period obsolete. As Meisner (2007, p. 24) explains:

> In the countryside, collectivistic and cooperative work units (along with much of the rural health and welfare systems) have been dismantled in order to create a commercialized rural economy. In the cities, the so-called "iron rice bowl" of job security and welfare benefits enjoyed by about half of the urban working class during the Mao years has been broken in the name of 'reform'.

Possibly the most extensive government transformation was the modernization of SOEs, which entailed extricating the social services from business activities. SOEs were restructured to become “lean” modern corporations, while schools, hospitals, restaurants, etc. were handed over to various other stakeholders such as local government, legal entities, and independent for- and non-profit business organizations (Lin, 2010). Under the motto “small state, big society”, these reforms ended the SOEs’ financial dependence on the state and reduced public spending on welfare, education, and health (Wang, 2004). By introducing ideas such as self-reliance and efficiency, the communist leadership also introduced profit seeking as a legitimate activity (Jaeyoun, 2012; Lin, 2010). Jaeyoun (2012, p.17) argues that the shift toward “small state, big society” was the CCP’s attempt to socialize welfare by calling “for more involvement from society in sharing responsibility for social welfare and resolution for unemployment”. And, with continued privatization, decentralization, and marketization of China’s economy, this shift became more pronounced during and after Deng Xiaoping, as the communist leadership moved to implement various strategies to shift and institutionalize social responsibility into the private sector.

Institutionalizing Philanthropy in Modern-Day China

During this period of reform, the CCP became known for its “performance legitimacy”, whereby the CCP maintained its support not on an ideological platform, but rather based on the republic’s continued developmental success (Fewsmith, 2001). The CCP achieved this by adopting the sustained improvement of the quality of life of Chinese citizens a second important focus (Lin, 2010), only surpassed by the aim toward further economic development. Given that this reform period also limited the role of the state in favor of developing business, it created a strong political motive for the communist leadership to encourage social responsibility among business actors to tackle some of the social and environmental problems in China. It is, therefore, unsurprising that the CCP implemented numerous policies to institutionalize philanthropic activities through channels, such as religion, state ideology, legislation, financial incentives, and CR frameworks. For example, the CCP has taken a more benevolent approach to religion in China over the past 35 years. Beyond their importance to welfare and philanthropy, Du and colleagues (2013) suggest that the communist leadership allowed religious establishments to flourish in part because of their ideological bases centered on charity, harmony, and social responsibility. In their study on the linkages between religious establishments and business, they argue that religious establishments can “serve as an alternative mechanism to urge firms toward philanthropic giving” (Du, Jian, Du, Feng, & Zeng, p.12). They also argue that, when business owners are located near religious sites, they are reminded of how charity and corporate philanthropy can improve their reputation. Benevolence is spread by encouraging religious and affiliated social norms (ibid), promoting the development of philanthropic activities. Under the rubric of the “harmonious society”, state policies encourage political and social stability to mitigate social and environmental problems (Laliberté, 2011).

During the 2005 National People’s Congress, the communist leadership announced that policy would shift from economic growth toward societal balance (Lin, 2010). The CCP made “building a harmonious society” its long-term goal, particularly by focusing on issues that “damage social harmony”, such as inequality, unemployment, access and quality of health care, and environmental pollution (Lin, 2010). This ideological shift not only reprioritized social issues in the political agenda, it also contributed to the creation of incentives for intensified philanthropic initiatives, enshrined in various legislative frameworks as legal, financial, and policy instruments that were adopted from 2005 onwards. Two leading examples of a legalistic basis for philanthropy in China include The Law of Donation, which is a legislative attempt to create a law of charity by allowing organizations to make donations through officially accredited organizations (Lang, 2003), and Article 5 of the 2006 Chinese Company Law, which states that "[i]n the course of doing business, a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to the government and public supervision, and undertake social responsibility" (cited in Lin, 2010, p. 71). Financial incentives to encourage corporate social responsibility include favorable tax treatment for charitable contributions (Minzer, 2011), green credit policies, which take into account corporate environmental performance during credit assessments (Lin, 2010), and a progressive green credit scheme, wherein "high-pollution and high-energy-consumption industries are subject to environmental performance reviews when applying for initial public offering (IPO) or refinancing" (ibid, p. 81). Perhaps the most interesting example in this regard is the CCP's entrenchment of CR in the Chinese business world with the adoption of various voluntary and mandatory CR initiatives. Examples include the 2008 Guidelines to the State-Owned Enterprises Directly Managed Under the Central Government on Fulfilling Corporate Social Responsibilities, which contains the state's position on how SOEs ought to engage in CR, the 2006 Shenzin Stock Exchange's Guide on Listed Companies' Social Responsibility, the Shanghai Stock Exchange's Guide on Environmental Information Disclosure for Listed Companies, or its Responsibility Index, which selects the top 100 socially responsible companies on the stock exchange each year. Whether legal, financial, or policy-related, most of these instruments are based on the principles of "building a harmonious society, advancing toward economic and social sustainable development, and promoting corporate social responsibility" (Lin, 2010, p. 76), illustrating how important state-endorsed, business-oriented philanthropic activities have become in modern-day China.

The Complex Relationship between State and Business

Various strategies have been adopted by the communist leadership to associate philanthropy with communism. However, there are also important bottom-up philanthropy-related advantages that partially account for the close relationships between the state, business, and society. To understand these, we need to return briefly to the historic legacy of the CCP. Because of the elimination of the Chinese bourgeoisie during Mao's leadership, an "entrepreneurial class" had to be created in order to implement the new market strategies, which shaped an alliance between economic and political elites, and which has had a lasting impact on the business landscape in China. Private enterprise, for example, invests in high-profile CR activities in order to compete for the attention of political actors. Within this mutually interdependent relationship, philanthropy may facilitate preferential market access, protect business interests, and promote rent seeking (Dickson, 2008; Xu, 2011).

China is a large, complex, dynamic, and diverse country, so generalizations are nearly always flawed. But with the benefit of time on our side, it is possible to look back and observe some of the continuities and discontinuities, which have shaped the present. This can be seen, for example, in the vacillation between ideology and pragmatism within the CCP and how this dynamic created and shaped the potential for a philanthropic landscape that is deeply embedded in the political, economic, cultural, and social domains of modern-day China. In the final section, we examine some of the economic and social achievements associated with China's development over the past few decades, and how this development shapes and is being shaped by a political discourse relating to expectations toward business and corporate philanthropy, nationally and internationally.

Corporate Philanthropy in China Today

> Both critics and admirers of China's economic reform agree that we are witnessing one of the most extraordinary episodes of social and economic transformation in human history. (Xu, 2011, p. 1)

So far, this paper has focused on some of the cultural, historical, and political dimensions, which contributed to the foundations and expectations of philanthropy in China. But the most prominent of these is perhaps the tremendous economic, political, and social developments associated with China's success and the impact these have on shaping the philanthropic expectations placed on corporations in China. An exhaustive account of the multidimensional factors falls beyond the scope of this paper. In the following section, we lay out some of the major achievements in order to show how Chinese corporations have become deeply embedded in the global world and how this in turn has contributed to increasing expectations from the state, its citizens, and from the global community. We do this by examining the economic, social, and political development in China in the recent two decades, its globalization, and how these form a modern basis for Chinese corporations to engage in corporate philanthropy.

Economic Development

Since China introduced economic reforms to decentralize and diversify its economy, private business, and foreign investment surged (Shoujin & Caccamo, 2013). Due to the rapid economic growth of this period, China became the second largest world economy, the worlds' largest exporter, as well as an important global investor (Arora & Vamvakidis, 2010). In November 2014, the International Monetary Fund announced that China had overtaken the US as the largest economy in purchasing parity power (Bird, 2014). Although some remain skeptical of the timeframe within which this relative adjustment of GDP will translate into real market exchange and others wonder whether Chinese economic growth has reached its peak, most predictors still indicate that China will overtake the US in the near future and that, based on "the assumption that China's ascent will continue as roughly charted earlier — its economy [will] grow to twice the size of the United States' by 2030" (Jacques, 2013, p. 4). In less than 10 years, China's GDP has more than quadrupled from slightly more than US$ two trillion in 2005 to more than US$ nine trillion in 2013 (World Bank, 2015a). During the same period, per capita income (measured at current value of US$) doubled from US$ 3,749 to US$ 6,749 (World Bank, 2015b). China has become one of the upper-middle income nations of the world (World Bank, 2015c). Historically, these gains are even more impressive. According to a United Nations Development Report, per capita income has increased twenty-fold since 1970 (UNDP, 2014). In terms of a sectorial breakdown, Rühle (2012) explains that this is due to a 46.8 % growth in industry, a 42.6 % growth in the tertiary sector, and a 10.6 % growth in the agricultural sector. This can also be observed in the steady growth of China's trade industries. As Yao (2014, p.15) puts it:

> In the past decade, China's trade volume increased from $800 billion in 2003 to $3.87 trillion in 2012, which raised it from the fourth in the world to first place among the developing countries. China also ranks first in absorbing foreign direct investment and is the third highest country in outward foreign direct investment.

The growth in trade and investment also reflects the multiple transitions of China's economy as it established itself as a global superpower. Initially, it moved from a mostly rural, planned economy to “an economy dominated by manufacturing and service sectors” (Zheng, 2014, p. 43). In recent years, new technological advances are transforming China from “made in China” to “created in China” as China has begun to move away from low-skill, labor-intensive industries to focus its core competencies on new technology industries instead (Yao, 2014). As a result, China’s export of mechanical and electronic products has grown nearly eight times over the last decade, while China has become a world leader in automotive, shipping, railway, aircrafts, satellite technology, and other high-tech products (ibid). This has vastly increased China’s share in “world trade, global markets for selected goods, and capital flows” (Arora & Vamvakidis, 2010, p. 11), a point we will return to below.

Social development

The tremendous economic growth had vast social impacts for a large segment of the world. According to Jacques (2013, p. 4), “China has twice the population of Europe and four times that of the United States. It accounts for one-fifth of the world’s population. It is not just another country but a near continent or, to put it another way, a sub-global region”. According to Arora and Vamvakidis (2010), a 16-fold increase in the national economy has come about in a single generation, creating an unprecedented improvement in living conditions both in scale and pace, lifting several hundred million people out of poverty (see also Xu, 2011). China’s steady climb on the Human Development Index (HDI) illustrates this well. Used by the United Nations to track human development of countries globally, the HDI ranks countries annually based on life expectancy, education, and income indices. Since initiating market-reforms in the early 1980’s, China’s HDI value has increased 70 % from .423 in 1980 to .719 in 2013. In real terms, this means that between 1980 and 2013 “China’s life expectancy at birth increased by 8.3 years, mean years of schooling increased by 3.8 years and expected years of schooling increased by 4.5 years [and] China’s [Gross National Income] per capita increased by about 1563.3 percent” (UNDP, 2014, p. 2).

Political Development

Most of the economic and social development highlighted thus far is a result of careful and purposeful political engineering. In this way, economic and social development in China is intricately connected to the foci and principles identified in its political discourse. Advances in economic and social development are made possible through changes in the political agenda, as the political agenda is adapted – based on ideology or pragmatism – according to the development of the economic and social sphere. The following is an illustration of some of this political discourse that reciprocally relates to development.

Eight Principles of Foreign Aid: In late 1963, the Chinese Premier Zhou Enlai visited various countries in Africa, creating a new basis for China-Africa relations. During this visit, Zhou proposed eight principles governing China’s foreign economic and technical assistance, including the aim toward mutual benefit; assist independently of conditions or special privileges to China and its experts; lighten the burden of recipient countries; help recipient countries to achieve self-reliance and independent development; develop projects that require less investment but yield speedy results; provide quality equipment and materials from its own manufacture base; provide technical assistance; and allow the recipient country to master techniques and technologies associated with economic and technical assistance.

Aims and capabilities: Premier Wen Jiabao presented Chinese aims and capabilities in a speech at Davos in 2010, which included “providing public services”, establishing a “sustainable system of public services that covers both urban and rural areas, and promote equal access to social security and basic medical and health care services", invest in public housing to improve "livelihood and social stability", "rectify the market order, improve the land, tax and financial policies, accelerate the establishment of a long-term mechanism for the healthy development of the housing market and curb investment and speculative demand", "guide the market towards greater supply of ordinary commercial housing, speed up the development of low-income housing and build public rental housing", and "deepen comprehensive reforms in the economic, political and other fields to enable the entire system to better meet the needs of developing a modern economy and building socialist democracy, push forward social equity and justice and facilitate the free and all-round development of the people."

Peace, cooperation, development, and inclusion as principles of China-AEAN focus and growth areas: In a media release on 8 October 2013 the Chinese Premier Li Keqiang presented the following focus and growth areas to mark the 10th anniversary of China-ASEAN strategic partnership: "good-neighborliness, friendship and cooperation to consolidate the political foundation for our strategic mutual trust", "strengthen exchange and cooperation in the security field", upgrade the China-ASEAN FTA "to take concrete steps in trade in goods, trade in services, investment cooperation and other areas to promote trade and investment liberalization and facilitation", "establish an Asian infrastructure investment bank and meet, on a priority basis, some ASEAN countries' need for financial support in infrastructure building", "increase the size and scope of bilateral currency swap, expand the pilot program of settling cross-border trade with local currencies", "intensify practical cooperation on marine economy, especially fishery, and in other areas such as maritime connectivity, marine environment protection and scientific research, and maritime search and rescue, and work together to build the Maritime Silk Road of the 21st century", and "formulate the China-ASEAN Cultural Cooperation Action Plan to facilitate exchanges in culture and education, and between youth, think tanks and the media" (Li, 2013).

One Belt, One Road: According to Kennedy and Parker (2015), the 'One Belt, One Road' initiative will form an important part of China's 13th five year plan (2016-2020) and refers to Xi Jinping's foreign policy and domestic economic strategy to develop a network of regional infrastructure projects. Extending well beyond road, rail, and maritime infrastructural projects, this initiative aims to "promote greater financial integration and use of the Renminbi by foreign countries, create an 'Information Silk Road' linking regional information and communications technology networks, and lower barriers to cross-border trade and investment in the region, among other initiatives. New regional institutions, such as the Asian Infrastructure Investment Bank (AIIB) and New Silk Road Fund (NSRF), are also designed in part to complement and support the Belt and Road's development" (Kennedy & Parker, 2015, p. 1). They also note that this initiative is "notable for its mixing of traditional Chinese diplomatic language (e.g., emphasizing sovereignty and nonintervention) alongside a newer rhetorical focus on adherence to high standards and international norms and the 'decisive' role of the market and industry in driving the initiative" (ibid).

The Asian Infrastructure Investment Bank (AIIB): According to the AIIB website, the bank defines itself as 'lean, clean and green': "lean, with a small efficient management team and highly skilled staff; clean, an ethical organization with zero tolerance for corruption; and green, an institution built on respect for the environment. The AIIB will put in place strong policies on governance, accountability, financial, procurement and environmental and social frameworks…. The AIIB will focus on the development of infrastructure and other productive sectors in Asia, including energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics, etc." (AIIB, 2015)

Political initiatives such as these illustrate well the ability of the Chinese leadership to manage China's development and are major contributing factors to China's emergence as a global superpower. According to Jacques (2013, p. 4), Chinese governance is so successful because of

> the sheer competence of government; the ability to think long-term and take a strategic view of development; the ability to get things done; the willingness to experiment and make choices on a very pragmatic basis as according to what does or does not work; the capacity to undertake great infrastructural projects that have been crucial to China's transformation; and the relative immunity, compared with the United States for example, from the lobbying of powerful vested interests.

These strengths have not only engendered China's economic prosperity – currently its greatest contributor to social stability and development, but, tied to its economic success, also its considerable increase in global political influence. Kastener and Segal (2009, p. 8) observe that this is hardly surprising because "[t]he conventional wisdom among policymakers, economic actors, and scholars holds that the translation of economic power into political influence is virtually automatic: higher levels of bilateral economic relations should yield greater influence." In this way, China's pivotal role in the globalization of the world fosters its growing international power and influence, as the increase in international power and influence reciprocally translates into economic and social development.

China and Globalization

Although China had already achieved a high degree of openness in foreign trade by the beginning of the 21st Century, its entry into the World Trade Organization (WTO) in 2001 created an enormous impetus for China-world trade integration. Between 2001 and 2009, for example, US exports to China increased nearly 270%, from US$ 19 billion to US$ 72 billion, while exports from China to the US nearly tripled from US$ 102 billion to US$ 296 Billion in the same period (Zheng, 2014). In Europe, EU-China bilateral trade grew steadily. According to Casarini (2012), China-German trade surpassed € 100 billion in 2011, and China has become the EU's biggest sources of imports, accounting for more than € 428 billion in 2011 alone. These developments allowed China to become a global exporter, second only to the US in terms of imports (Kutznetzova, 2013). In addition to increasing globalized trade, foreign direct investment (FDI) followed similar developmental patterns. By 2009, China was absorbing approximately 17% of the FDI flowing to developing countries, while also becoming an important outbound direct investment (ODI) nation (Zheng, 2012, p.73). Arora and Vamvakidis (2010, p.12) explain:

> China now accounts for nearly one-tenth of global demand for commodities and more than one-tenth of world exports of medium- and high-technology manufactured goods. China has become a major exporter of electronics and information technology products and is the largest supplier to the United States of consumer electronics products such as DVD players, notebook computers, and mobile phones. China's rising share in world trade over the past

> three decades is underpinned by a rise in its share in the external trade of every major region. China's share is, perhaps unsurprisingly, largest in the trade of other emerging Asian economies (13 percent), and this share has seen a striking increase over time. But its share of African trade is almost as large, and its share in trade with the Middle East, the Western Hemisphere, and Europe has increased several fold in recent decades.

China has also been the major player in creating a much larger Asian supply chain since "Chinese final goods exported to the West require, for their production, substantial inputs from the rest of Asia. This supply chain allows other Asian countries, especially smaller ones, greater access to global markets…. A 1 percentage point change in China's growth sustained over five years is associated with a 0.4 percentage point change in growth in the rest of the world" (Arora & Vamvakidis, 2010, pp.12-13). China's fundamental role in globalizing the world did not only result in direct economic gains, but it also contributed significantly to the overall development of the Asian region, and it helped to sustain world growth or at least to soften the impact of the recent global recession. There are many contemporary examples, which show how China's emergence as a global power and its growing influence on world affairs is contributing to a changing global landscape, four of these will be covered here briefly: first, China's increasing role in maintaining global financial markets; second, its growing political influence in the world; third, its evolving role in the UN Security Council; and, fourth, its new role as an agenda setter for sustainable development.

According to Casarini (2012, p. 43), the recent debt crisis in the West provided China with "the opportunity to raise its profile internationally and challenge the existing international economic and monetary order". This is because, since the crisis, China has become the largest foreign investor in US treasury bills and other securities (ibid). Casarini (2012, pp. 44-45) states:

> Until summer 2011, China typically purchased around $1 billion of US Treasuries a day. In this way, China has been fuelling American growth by both supplying cheap goods and providing cheap funding to finance the purchase of these goods. […] In the same period, however, the portion of the People's Bank of China's (PBOC) allocated reserves held in euro-denominated assets rose from around 27 percent to 33 percent.

China's intervention in Western markets played an important role in ensuring market stability throughout this period, although it did not come without some conditions (ibid). According to Casarini, some of these included that the EU should resolve its debt problems, as well as consider granting China Market Economy Status, and suspend the EU arms embargo. This goes some way in illustrating how China's increased global financial role has augmented its growing global influence. But, as Edelstein and Schweller (2009, p. 3) point out, "China's future role will not be determined by material power alone, but equally by the objectives it opts to pursue". These objectives are discernable, for example, from the various ways China exercises its growing political influence. According to Matsuda (2009, pp. 14-15), China's economic power provides it with the ability to use foreign investment, foreign aid funding, and trade pacts to increase its global diplomatic presence:

> China' growing economic power means major powers can no longer ignore China's political preferences – it simply has too much influence over the world economy for its voice to go

> unheeded. Far from engagement in multilateral institutions or military dialogues, economic power is the underlying source of China's diplomatic rise.

China's deployment of "great power engagement, regionalism, development, and multilateralism" (ibid, p.15) in its cooperation with existing great powers has resulted in China being "taken more seriously due to its growing material power while increasingly accepted and respected for its political agenda" (ibid). Similarly, Kastener and Segal (2009) refer to China's expanding economic statecraft, that is, a nation's ability to transform its economic power into political influence. In relation to China's growing power, they highlight how China uses its economic statecraft to secure resource-markets in Latin America and Africa, and to "prevent the emergence of an anti-China coalition by integrating China within Asia and thus defusing the concerns of China's neighbors with its rise. Concurrently, economic statecraft offers a way to increase China's prestige and signal its interest in playing a central role in world affairs" (ibid, p. 9). China's increasingly prominent role in the UN Security Council further illustrates the augmented role it now plays in world affairs. According to Lei (2014, p. 18):

> China continues to strive to maintain good working relations and cooperation with the other permanent members in a spirit of principled pragmatism. In the meantime, China is also becoming more involved in international affairs based on its own approach, such as its persuasive diplomacy and participation in UNPKOs [United Nations Peacekeeping Operations]. The Chinese approach has been characterized by incrementalism and gradualism, with a marked preference for stability and gradual change in the status quo.

Odgaard (2009) observes that China's attempts to instill new codes of conduct in the Security Council have enjoyed support by approximately half of the council members. This contribution to changing the international world order encompasses several elements, such as emphasizing state sovereignty in international matters, promoting regional peace and security through strengthening international rule of law, using persuasion rather than coercion during negotiations, and developing national military forces primarily for defensive purposes (ibid).

Finally, China's growing influence can be seen as extending beyond these political and organizational spheres to the setting of international standards for sustainable environmental practices. The recent commitment to reduce carbon emission between China and the US is a good example. With this pact, the US committed to doubling their rate of cutting carbon emissions, while China committed to a concrete ceiling by 2030 (Moore, 2014). This is a significant agreement not only because these are the two most powerful nations in the world, but also because together they account for approximately 40% of the world's carbon emissions (ibid). Furthermore, this commitment will impact on other nations' environmental commitments.

China's Rise and Its Implications for Chinese Philanthropy and Sustainability

The internal and external developments listed above illustrate China's steady rise as a global superpower. Given that most of its development is a result of the expansion of trade, industry, and investment, the rise of Chinese corporations are deeply intertwined with the rise of the nation. As China has risen in power and prominence, so too have Chinese corporations risen in power and prominence. This has multiple implications on the role corporations play locally and globally, and the philanthropic expectations associated with these from both the state and its citizenry.

Chinese state-owned and private businesses were the direct beneficiaries of China’s rapid industrialization due to the overall and sustained commitment to economic development. Consequently, they are increasingly held accountable for a wide range of negative environmental and social consequences, which came about in part as a result of the unprecedented speed of economic development. Adverse social and environmental effects due in part to rapid economic development have formed the basis for the many voluntary and regulatory initiatives to encourage public disclosure of large corporations’ CR activities. In this way, economic success must be justified by showing how business performance and public trading connects to various environmental and social performance indices. Related to this are the raised expectations of Chinese citizens, which reflect a growing consensus that corporations should contribute more actively to their quality of life. The increase in the standard of living and education has enhanced public awareness of the role these prominent and powerful corporations should play in developing and sustaining a better society, often through philanthropic activities. As mentioned above, this is further encouraged by the state as the Chinese leadership pressures corporations to fill the social development gaps, which fall beyond their newly defined scope. In this regard, Chinese corporations are still the main source of philanthropic donations, although personal donations are gradually increasing (Zhao & Gao, 2014).

China-world integration has further impacted on the global role of Chinese corporations, blurring the lines of demarcation between what many Chinese actors would define as (strategic) philanthropy and corporate responsibility. Although the global business practices of Chinese corporations remain primarily focused on the energy and mineral industries, overseas mergers and acquisitions, as well as expansion through the internet, real estate, and cultural industries reflect a wider trend of diversification and integration (Chinese Statistics Bureau, 2014). China and its corporations have become embedded in global trade and business, which creates reciprocal expectations on how Chinese corporations ought to behave internationally. On the one hand, external pressures to conform to international standards of practice increase as Chinese corporations become integrated into other countries and multinational business contexts. This raises the expectations on Chinese corporations to adopt or adapt to internationally accepted standards, and to invest in consensus-building of these local and global practices. On the other hand, internal pressures, especially from the CCP to conform to international ideals of sustainability are also evident. According to Moon (2013), the Chinese government encourages Chinese corporations in the export sector to engage with institutions like the UN Global Compact. The Global Compact China Network, for example, was launched in 2011 to strengthen cooperation between Chinese and foreign companies, and to advance UN Global Compact principles in the areas of human rights, labor, the environment, and anti-corruption (UN Global Compact, 2015). On their website they state that:

> For the last decade, Chinese companies have been engaged in the Global Compact actively and have deepened their participation on many issue areas. A large number of both state-owned and private companies have joined the initiative, bringing the total number of Chinese participants to over 300. More and more companies are implementing the ten principles of Global Compact and disclosing performance changes. (UN Global Compact, 2015)

Finally, it is not only internal and external expectations placed on Chinese corporations, which are important contributing factors shaping modern-day corporate philanthropy and responsibility in China. Chinese corporations can also benefit from engaging in philanthropy and CR, and the opportunities this creates, since taking on social responsibilities may be an effective way to foster local and international networks in order to build their own profiles and reputation.

Conclusions

The interdependencies between business and society are so numerous that it would be impossible to develop a comprehensive catalogue of the many functions, roles, expectations, and responsibilities that exist between them. Within these, however, corporate philanthropy is an important connector, especially in China. In this paper, we sought to bring together some of the many dimensions that shape and guide CR in general, and philanthropy in particular in modern-day China. While the distinction between CR and corporate philanthropy become blurred in China today, particularly among large corporations, philanthropy nevertheless continues to play an important role in defining the expectations and relations between the state, business, and society. The three main reasons why corporate philanthropy in China is difficult to understand are: our methods of analysis and syntheses are limited by language and cultural membership; our understanding of philanthropy is conventionally and unduly limited to voluntary donations, and we are thus neglecting the tremendous influence strategic philanthropy may play, in China and elsewhere; and we are not equipped to appreciate a co-existence between late modernity and traditionalism, where flexibility associated with pragmatism on the one hand, and traditionalism associated with different reference and time periods on the other, represent registers and action frameworks that are continuously at the disposal of individuals and institutions in China. It is not only that state and corporate actors have at their disposal Confucian, Socialist, modernist, and other ideological frameworks but that they can be drawn on, even in combination, at any time, depending on the creative, strategic, and pragmatic judgment of the actors involved.

We also hope to have shown that philanthropy needs to be understood as an important CR domain, especially in the Chinese business context. Returning to the typology by von Schnurbein and Timmer (2015), we recognize that many of the philanthropic expectations associated with large corporations occupy the upper two quadrants of Figure 1, Grant-Giving and Investment. In this way, Chinese corporations are expected to leverage their financial resources to benefit and support the entire societal spectrum, from individuals and organizations, to society as a whole. When considering this model, it is also interesting to note that Mobilization as a type of philanthropy is considered an internal corporate strategy. In the Chinese context, however, we find a reversal of this type of Mobilization in that it is the CCP who tends to rally large corporations to take action and commit to philanthropic initiatives and not the other way around. This may even be extended beyond the national context by studying the responsibilities China exerts and expects on the global stage, now and in the future.

With this paper we have shown not only the importance of philanthropy as a marker of business ethics in China, but also as a significant link between business and society. Philanthropy in China has a rich historical, ideological, political, social, cultural, and economic base, which business, the state, and society may draw on to determine the scope of expectations, responsibilities, and actions. These are not merely local characteristics but, as China and Chinese corporations continue to exert their power and influence, the registers we have outlined here will also influence the global business and political landscape. With this paper we have highlighted some important dimensions that define corporate philanthropy in China in the hope of encouraging policy-relevant and change-oriented research and scholarship in this field.

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Integrated Value Creation (IVC): Beyond Corporate Social Responsibility (CSR) and Creating Shared Value (CSV)

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Abstract: Integrated Value Creation, or IVC, is an important evolution of the corporate responsibility and sustainability movement. It combines many of the ideas and practices already in circulation, like corporate social responsibility (CSR), sustainability and creating shared value (CSV), but signals some important shifts, especially by focusing on integration and value creation. More than a new concept, IVC is a methodology for turning the proliferation of societal aspirations and stakeholder expectations, including numerous global guidelines, codes, and standards covering the social, ethical, and environmental responsibilities of business, into a credible corporate response without undermining the viability of the business. Practically, IVC helps a company integrate its response to stakeholder expectations (using materiality analysis) through its management systems (using best governance practices) and value chain linkages (using life cycle thinking). This integration is applied across critical processes in the business, such as governance and strategic planning, product/service development and delivery, and supply and customer chain management. Ultimately, IVC aims to be a tool for innovation and transformation, which will be essential if business is to become part of the solution to our global challenges, rather than part of the problem.

Keywords: Integrated value, sustainability, social responsibility, CSR, quality, shared value, integration, management systems, standards

Integrated Value Creation (IVC) is a concept and practice that has emerged from a long tradition of thinking on the role of business in society (Carroll, 1999). It has its roots in what many today call corporate (social) responsibility, or CSR, corporate citizenship, business ethics, and corporate sustainability (Visser et al., 2010). These ideas also have a long history but can be seen to have evolved primarily along two strands – let's call them streams of consciousness: the responsibility stream and the sustainability stream.

Two Streams Flowing into One

The responsibility stream had its origins in the mid-to-late 1800s with industrialists like John D. Rockefeller and Dale Carnegie setting a precedent for community philanthropy, while others like John Cadbury and John H. Patterson seeded the employee welfare movement (Carroll, 2008). Fast forward a hundred years or so, and we see the first social responsibility codes start to emerge, such as the Sullivan Principles in 1977 and the subsequent steady march of standardization, giving us SA 8000 in 1997, ISO 26000 in 2010 and many others.

The sustainability stream, also, started early with air pollution regulation in the UK and land conservation in the USA in the 1870s (Visser, 2011). Fast forward by a century, and we get the first Earth Day, Greenpeace and the UN Stockholm Conference on Environment and Development. By the 1980s and 1990s, we have the Brundtland definition of "sustainable development" (World Commission on Environment and Development, 1987), the Valdez Principles in 1989 (later called the CERES Principles), and the Rio Earth Summit in 1992, tracking through to standards like ISO 14001 in 1996.

Weaving Together a Plait

As these two movements of responsibility and sustainability gathered momentum, they naturally began to see their interconnectedness. Labor rights connected with human rights, quality connected with health and safety, community connected with supply chain, environment connected with productivity, and so on. The coining of the "triple bottom line" of economic, social, and environmental performance by John Elkington (1994), and the introduction of the 10 principles of the UN Global Compact in 1999 reflected this trend.

We also saw integration start to happen at a more practical level. The ISO 9001 quality standard became the design template for ISO 14001 on environmental management and OHSAS 18001 on occupational health and safety. The Global Reporting Initiative and the Dow Jones Sustainability Index adopted the triple bottom line lens. Fair Trade certification incorporated economic, social, and environmental concerns, and even social responsibility evolved into a more holistic concept, now encapsulated in the 7 core subjects[1] of ISO 26000.

Thinking outside the Box

At every stage in this process, there have been those who have challenged and advanced our understanding of the scope and ambition of corporate responsibility and sustainability. Ed Freeman (1984) introduced us to stakeholder theory, John Elkington (1994) to the "triple bottom line," Rosabeth Moss Kanter (1999) to "social innovation," Jed Emerson (2000) to "blended value," C.K. Prahalad & Stuart Hart to "bottom of the pyramid" (BOP) inclusive markets (Prahalad & Hart, 2002), and Michael Porter & Mark Kramer to "creating shared value" (Porter & Kramer, 2011).

There is a lively academic debate about Porter and Kramer's shared value concept, including criticism that it is unoriginal; it ignores the tensions inherent to responsible business activity; it is naïve about business compliance; and it is based on a shallow conception of the corporation's role in society (Crane et al., 2014). Nevertheless, shifting to the language of value, rather than of responsibility, is important, as is the emphasis on a more strategic and integrated focus (Visser, 2013).

Typically, all these new conceptions build on what went before but call for greater integration and an expansion of the potential of business to make positive impacts. For example, Hart's (1997) "sustainable value" framework incorporates pollution prevention, product stewardship, base of the pyramid (BOP), and clean tech. Emerson's (2000) "blended value," much like Elkington's (1994) "triple bottom line" looks for an overlap between profit and social and environmental targets, while Porter and Kramer's (2011) CSV focuses on synergies between economic and social goals.

[1] Organizational governance, human rights, labour practices, environment, fair operating practices, consumer issues, and community involvement and development

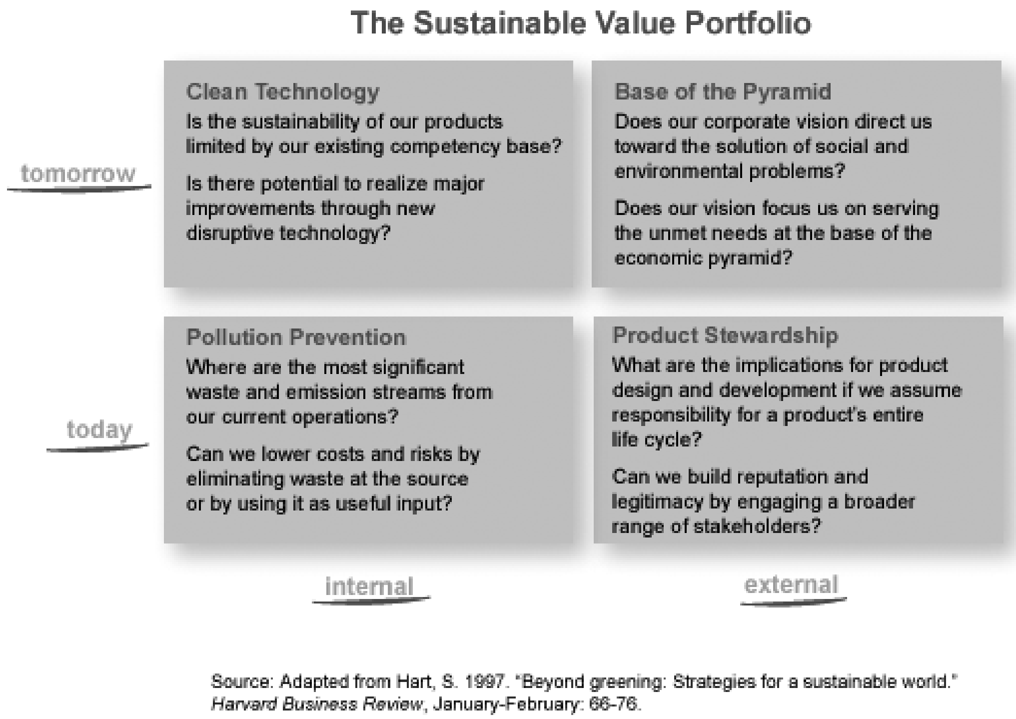

Figure 1. The concept of sustainable value

Most recently, the International Integrated Reporting Council (2013) published its International Integrated Reporting Framework, and its chairman, Mervyn King, wrote a book called *Integrate: Doing Business in the 21st Century* (King & Roberts, 2013). Another major development is that the International Organization for Standardization (2014) has issued guidance on integrated management systems as part of its ISO Directives (in Annex SL).

The "How To" of Integration

Integrated Value Creation (IVC) takes inspiration from all of these thought pioneers that have gone before and tries to take the next step. IVC is not so much a new idea, as the longstanding trend towards integration and the ubiquitous call for embedding of standards testifies, but rather an attempt to work out the "how to" of integration. When companies are faced with a proliferation of standards (StandardsMap.org alone profiles over 160 sustainability standards) and the multiplication of stakeholder expectations, how can they sensibly respond?

We have analyzed some of the most important global guidelines, codes, and standards covering the social, ethical, and environmental responsibilities of business, such as the UN Global Compact, OECD Guidelines for Multinational Enterprises, ISO 26000, GRI Sustainability Reporting Guidelines (G4), IIRC Integrated Reporting Guidelines, SA 8000, UN Business & Human Rights Framework, and Dow Jones Sustainability Index.

What we see are large areas of overlap in these guidelines, codes, and standards across what we might call the S2QuE3LCH2 issues, namely

S^2: Safety & Social issues
Qu: Quality issues
E^3: Environmental, Economic and Ethical issues
L: Labor issues
C: Carbon or Climate issues
H^2: Health and Human rights issues

Our experience of working with business shows that most companies respond piecemeal to this diversity and complexity of S2QuE3LCH2 issues (let's call them SQuELCH for short). A few large corporations use a management systems approach to embed the requirements of whatever codes and standards they have signed up to. Even so, they tend to do this in silos: one set of people and systems for quality, another for health and safety, another for environment, and still others for employees, supply chain management, and community issues.

Knocking Down the Silos

IVC, therefore, is about knocking down the silos and finding ways to integrate across the business. In short, IVC helps a company to integrate its response to stakeholder expectations (using materiality analysis) through its management systems (using best governance practices) and value chain linkages (using life-cycle thinking[2]). This integration is applied across critical processes in the business, such as governance and strategic planning, product/service development and delivery, and supply and customer chain management.

What about value? Most crucially, IVC builds in an innovation step so that redesigning products and processes to deliver solutions to the biggest social and environmental challenges we face can create new value. IVC also brings multiple business benefits, from reducing risks, costs, liabilities and audit fatigue to improving reputation, revenues, employee motivation, customer satisfaction, and stakeholder relations.

Pursuing Transformational Goals

Our experience with implementing and integrating existing standards like ISO 9001 and ISO 14001 convinces us that, in order for IVC to work, leaders need to step up and create transformational goals. Without ambition "baked in" to IVC adoption, the resulting incremental improvements will be no match for the scale and urgency of the global social and environmental crises we face, such as climate change and growing inequality.

One of the most exciting transformational agendas right now is the Net Zero/Net Positive movement (Elkington, 2012) which extends the "zero" mind-set of total quality management to other economic, social, and environmental performance areas. For example, we see companies targeting zero waste, water, and carbon; zero defects, accidents, and missed customer commitments; and zero corruption, labor infringements, and human rights violations. These kinds of zero stretch goals define what it means to be world class today.

Stepping Up To Change

In practice, IVC implementation is a 7-step process, which can be described as follows: 1) context analysis, 2) stakeholder assessment, 3) leadership review, 4) risk assessment, 5) breakthrough analysis, 6) process redesign,

[2] It is interesting to note that the revised ISO 14001 being planned for release in 2016 includes a life cycle perspective for all aspects of operations including product design and delivery.

and 7) systems integration. Each step is captured in Figure 2 and briefly explained below. Of course, the process must also remain flexible enough to be adapted to each company context and to different industry sectors.

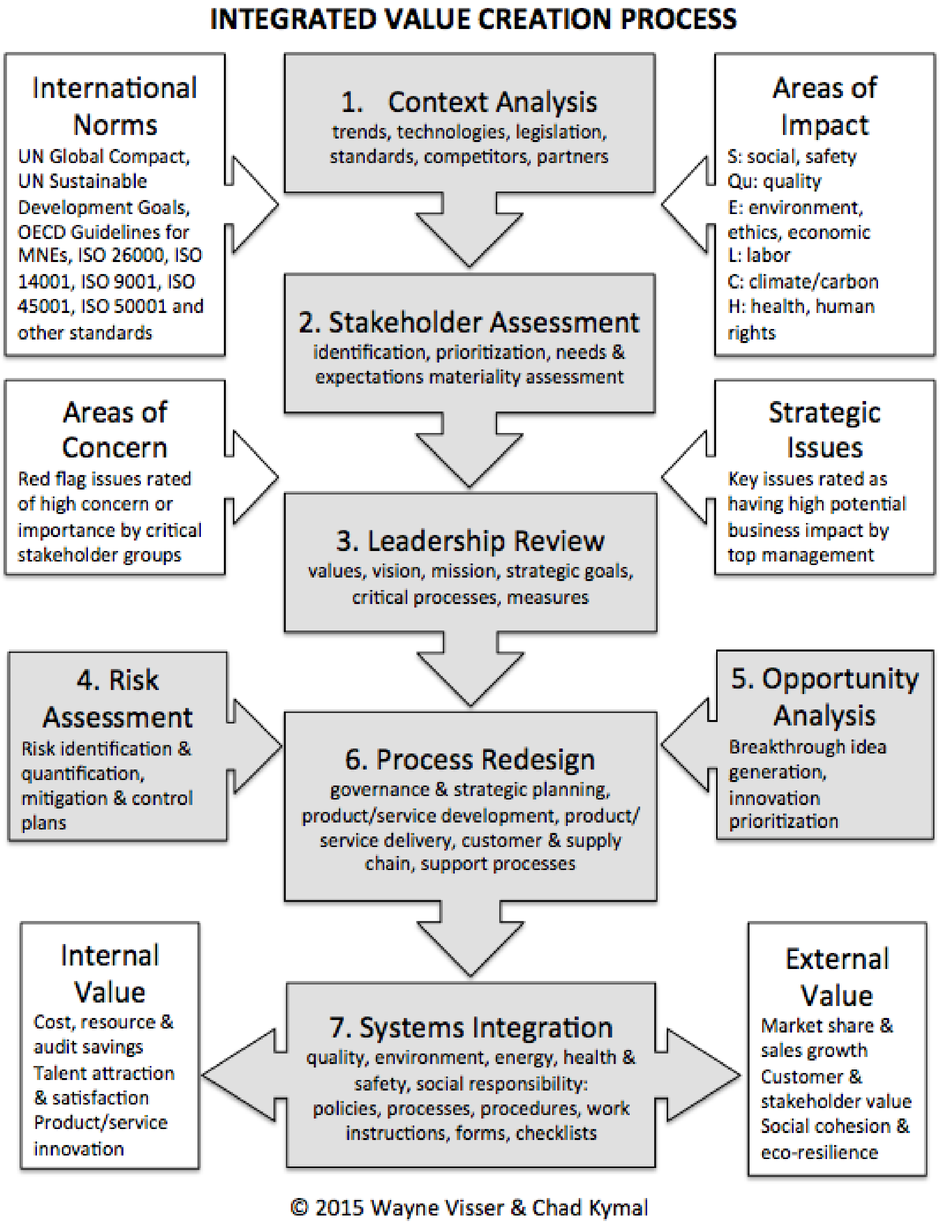

Figure 2. Integrated value creation process

Step 1: Context Analysis

The first step of the IVC process is Context Analysis. Many business leaders are conscious of the crucial role of context in sustainability leadership (Visser & Courtice, 2011). For example, Jeff Immelt (2007), CEO of General Electric says, "The most important thing I've learned since becoming CEO is context. It's how your company fits in with the world and how you respond to it.." Similarly, José Lopez (2010), Executive Vice

President Operations and GLOBE of Nestle, believes that "the context is that sustainability processes in place today are not trending in the right direction."

The Context Analysis, therefore, takes stock of all the relevant societal trends, disruptive technologies, changing legislation, responsible business codes and standards, cross-sector partnerships, and competitor activity. During this stage, the company is using the SQuELCH lens to identify what are the most critical pressures that are shaping its operating environment. This is in line with the new ISO High Level Structure for management systems, which states that "The organization shall determine external and internal issues that are relevant to its purpose and that affect its ability to achieve the intended outcome(s) of its management system."

Step 2: Stakeholder Assessment

Stakeholder Assessment is an iterative process that systematically identifies, categorizes and prioritizes all stakeholders, including customers, employees, shareholders, suppliers, regulators, communities, and others before mapping their needs and expectations and analyzing their materiality to the business. The new ISO High Level Structure for management systems requires that "the organization shall determine the interested parties that are relevant to the management system; and the relevant requirements of these interested parties."

There are various methods for prioritizing stakeholders. For example, they can be rated and ranked based on their power, legitimacy, and urgency (Mitchell et al., 1997). After identifying, categorizing and prioritizing stakeholders, companies must enter into an active and systematic process of engagement to find out what they "material" issues of concern are for these groups. AccountAbility, the standards organization, was among the first to identify the need for "redefining materiality" to include stakeholder perspectives, especially in the context of non-financial reporting (Zadek & Merme, 2003).

The process of engagement to determine material issues, if done properly, could take months, since it should be inclusive and comprehensive. In practice, however, many companies hold annual stakeholder forums to which they invite key representatives for a few days of intensive consultation. For example, Coca-Cola's global stakeholder forum held in Budapest in 2014 solicited feedback on the key issues of water, obesity, and women's empowerment.

The output of this process is often a stakeholder materiality matrix popularized by the Global Reporting Initiative in its G3.1 Sustainability Reporting Guidelines in 2011 (GRI, 2011). For example, Nestle's 2014 stakeholder materiality matrix identifies the following high-priority issues: water stewardship, over- and under-nutrition, climate change, food safety, and business ethics.

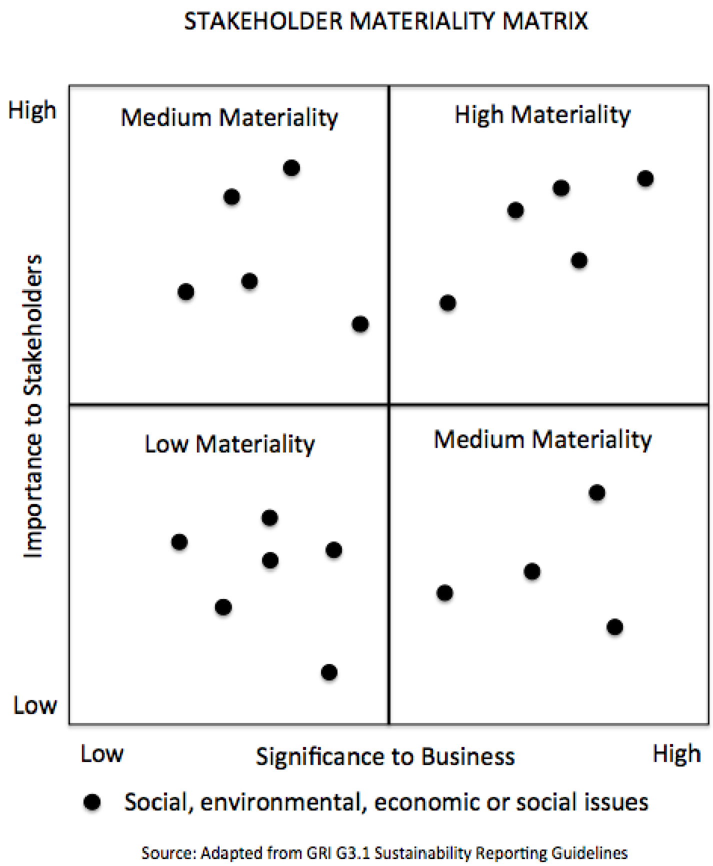

Figure 3. Stakeholder assessment tool

Step 3: Leadership Review

The context analysis and stakeholder assessment should create a filter that distils the most materially strategic issues for the business and its industry. Based on these insights, top management should review (and if necessary, revise) its values, vision, and mission to ensure that they are truly aligned with the priorities identified in the first two steps. The material issues then need to be translated into strategic goals and targets. Companies can use established frameworks like the balanced scorecard (Kaplan & Norton, 1992) to capture these strategic sustainability goals (Figge et al., 2002; Möller & Schaltegger, 2005), linking it to the growing practices around sustainability accounting and sustainability reporting (Schaltegger & Wagner, 2006), or the goals can simply be integrated with existing strategic performance measurement systems in the company (Gates & Germain, 2010). These goals will then act as another filter leading to the identification of critical business processes that will enable the achievement of the strategic goals.

For example, Unilever identified improving health and wellbeing, reducing environmental impact, and enhancing livelihoods as their three most material issues, calling this their Sustainable Living Plan (see Figure 4). These were then converted into nine strategic goals covering health and hygiene, improving nutrition, greenhouse gases, water use, waste and packaging, sustainable sourcing, fairness in the workplace, opportunities for women, and inclusive business. Each goal has a timeline (2020) and measurable target. For example, Unilever is committed to helping more than a billion people to improve their health and hygiene, thus reducing the incidence of life-threatening diseases like diarrhoea. By the end of 2013, they had reached 303 million people.

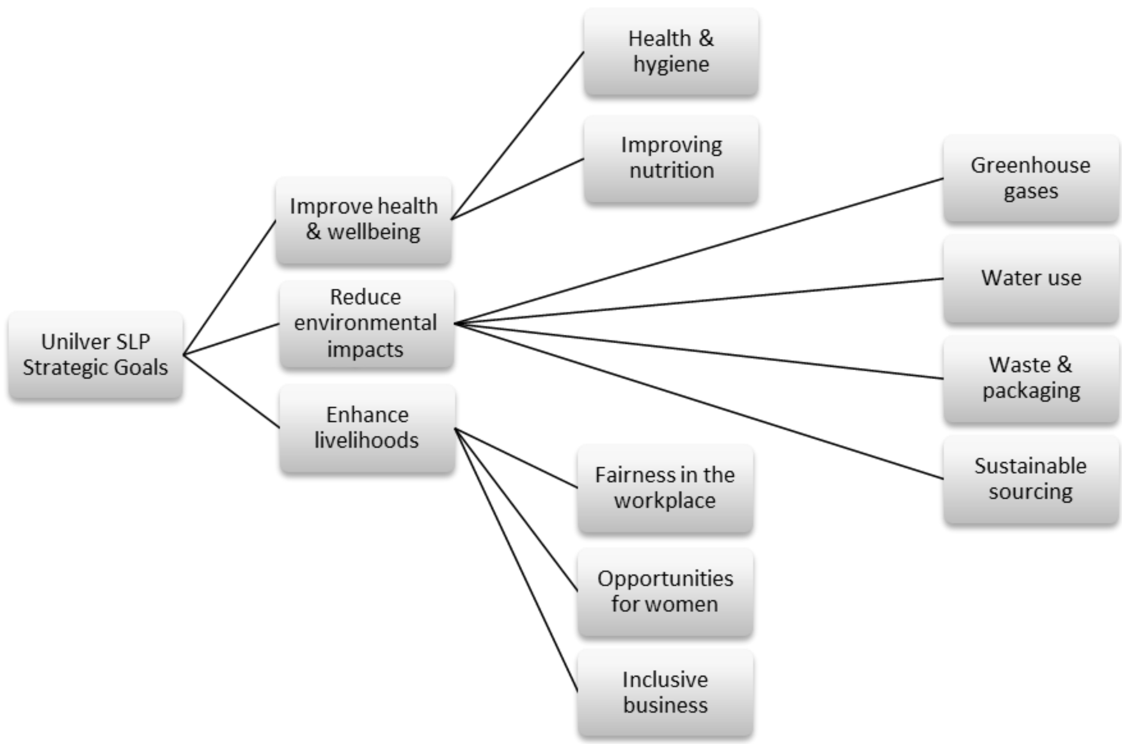

Figure 4. Unilever sustainable living plan (SLP)

Step 4: Risk Assessment

Parallel with the Stakeholder Materiality Analysis, the risks to the business are analyzed through an Integrated Risk Assessment. This means the identification and quantification of quality, cost, product, environment, health and safety, and social responsibility risks, in terms of their potential affect on the company's strategic, production, administrative, and value chain processes. As Sexton and Linder (2014) observe, different risk assessment methodologies have evolved for different types of risks. For integration, however, the risk measures developed need to be valid and comparable for all the different types of risks and different entities of the business, and mitigation measures identified.

The key to integrated risk assessment is to understand that risk is always a function of severity times occurrence (R = S x O). Severity should be evaluated as the highest risk event that can take place when a quality, environmental, occupational health and safety or social responsibility failure takes place without any controls. Residual risk is the amount of risk left over after current controls are applied. Current controls are the controls used by the organization to reduce occurrence and/or prevent or detect the failure. For each risk, a severity, occurrence and detection (D) score is assigned (usually, from 1=high to 10=low), and a risk priority number calculated (S x O x D), as illustrated in Figure 5 (Kymal et. al, 2015).

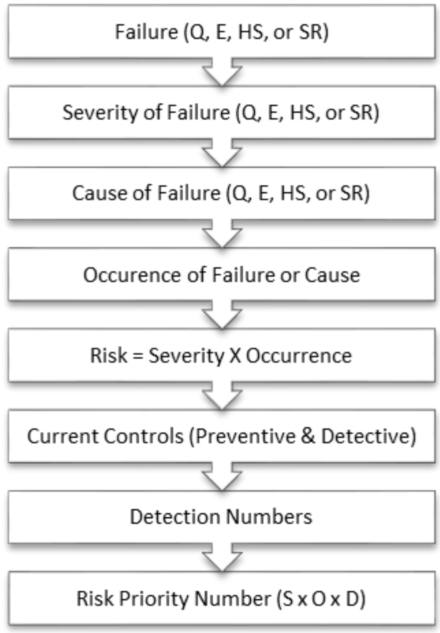

Figure 5. Integrated risk assessment process

For example, if an integrated risk assessment were performed on the purchasing process, risks may be identified for quality (e.g. unqualified suppliers, poor quality products, late delivery), environment (e.g. excessive or non-recyclable packaging, leak contaminants), health and safety (product contains allergens, may cause injury) and social responsibility (e.g. supplier uses sweatshops, product discriminates against women).

It is worth noting that the first two steps of Stakeholder Analysis and Risk Assessment are requirements of the new ISO 9001, ISO 14001 and ISO 45001 (formerly OHSAS 18001) standards slated to come out in the next few years. For example, in the new ISO 9001 that is planned for release in 2015, it is called "Understanding the Needs and Expectations of Interested Parties" and "Actions to Address Risks and Opportunities." The evolution of the ISO standards is indicative of a shift in global mind-set (since ISO represents over a 100 different countries) to prioritizing stakeholder engagement and risk management.

Step 5: Opportunity Analysis

Step 5 entails the Innovation and Value Identification element. It recognizes that not only is technological innovation booming, it is rapidly shifting towards sustainable solutions. For example, many of the World Economic Forum's top ten most promising technologies have a clear environmental and social focus, such as energy-efficient water purification, enhanced nutrition to drive health at the molecular level, carbon dioxide (CO_2) conversion, precise drug delivery through nanoscale engineering, organic electronics, and photovoltaics.

For specific clean energy technologies, including wind, solar and biofuels, the market size was estimated at $248 billion in 2013 and is projected to grow to $398 billion by 2023, according to the 2014 Clean Energy Trends report (Clean Edge, 2014). In fact, the rapid growth in eco-innovation is being actively supported by the European Commission, OECD, and UNEP (2015). For example, 125 eco-innovation projects supported by the EC, each employing around 8 people, resulted in impressive benefits: 609,000 tons less waste, 170 million m^3 of water saved, €20 revenue per €1 invested, 1.4m tons of material reduced, and 11.6 m tons of CO_2

avoided, adding up to €1.6 billion in environmental and economic benefits (EICA, 2013).

All of these and other social and environmental innovations are a result of breakthroughs in technology or processes. However, in order for companies to capture the value of such innovation, they have to build a capability to create breakthroughs repeatedly, and the only way they do that is to form a management system for innovation (O-Connor et al., 2014). Using the Net Zero/Net Positive strategic goals (Elkington, 2012), as illustrated in Figure 6 or others like Stuart Hart’s (1997) sustainable value framework, Opportunity Analysis takes looks at each of the business’s critical processes for opportunities to innovate.

Opportunity analysis is comprised of idea generation and screening and the creation of a Breakthrough List. This is the chance for problem solving teams, Six Sigma teams, Lean teams, and Design for Six Sigma teams and others to use improvement tools to take the company towards its chosen transformational goals (Fargani et al., 2014). The improvement projects will continue for a few months until they are implemented and put into daily practice. If opportunity analysis is taken as a business strategy, as in the case of Interface, it can take decades to implement. For example, their Mission Zero strategy for 2020, which began in 1994, has seven steps: 1) zero waste, 2) benign emissions, 3) renewable energy, 4) closing the loop, 5) resource-efficient transportation, 6) sensitivity hookup, and 7) redesign commerce.

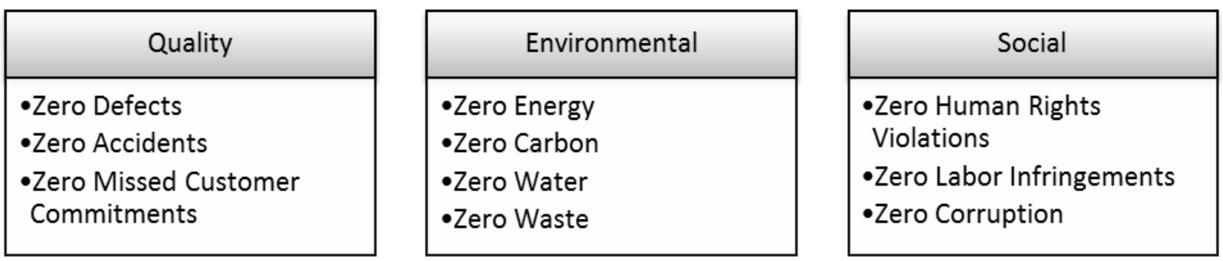

Figure 6. Examples of net zero/net positive strategic goals

Step 6: Process Redesign

In Step 6, business processes are mapped and redesigned to align with stakeholder expectations, move towards the strategic goals, minimize risks and maximize breakthrough opportunities. Key business processes are illustrated in Figure 7, although this may vary depending on the country, sector, and company. For example, if eliminating corruption is a strategic goal, management will determine which business process is most critical, most likely procurement/purchasing (in the customer and supply chain process) and employee training (in the HR support process). By mapping out the process, and determining key measures for that process, opportunities for improvement can be identified. For example, introducing a procurement policy on bribery and corruption, or a third party due diligence or forensic audit procedure for new supplies.

Figure 7. Key business processes

Step 7: Systems Integration

In Step 7, the requirements of the various SQuELCH standards most relevant for the organization, together with the transformational strategic goals, are integrated into the management system of the organization, including the business processes, work instructions, and forms/checklists. The new Annex SL of the ISO Directives provides useful guidance on the key components of integrated management systems and is illustrated in Figure 8.

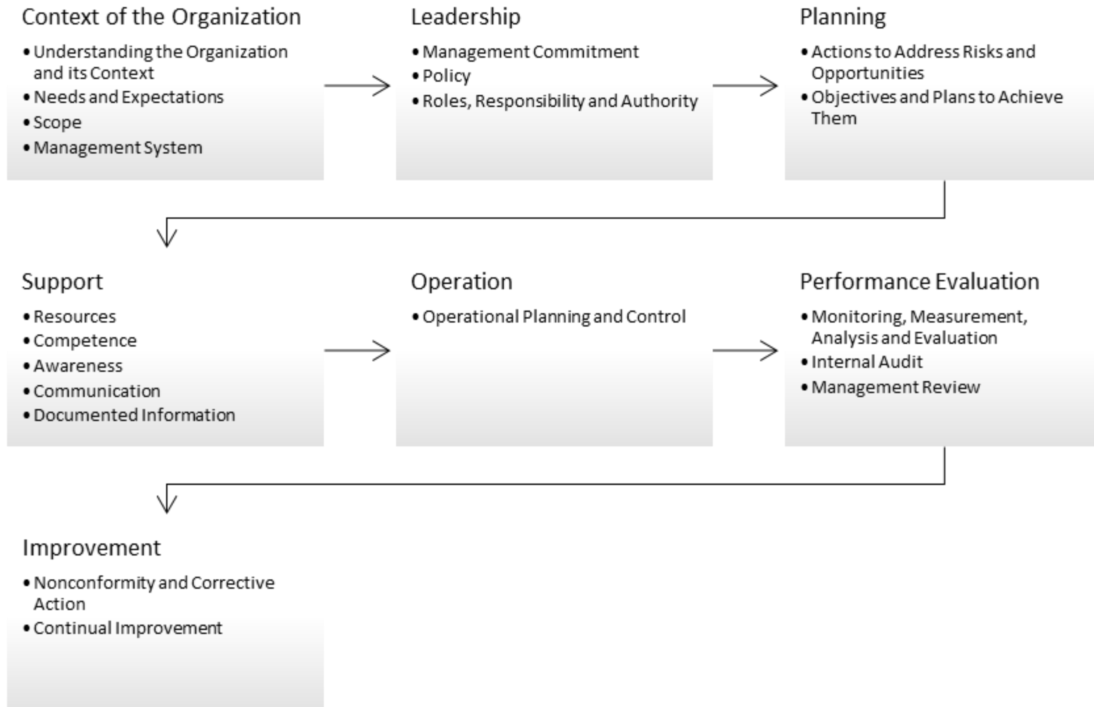

Figure 8. High level structure of an integrated management system
Source: ISO directive, Annex SL: High level structure

This goal of integrating management systems for quality, environment, health and safety, and social responsibility is well established in the literature (Almeida et al., 2014; Kymal et al., 2014; Mohamad et al., 2013). In practice, process owners must work with cross-functional teams to ensure that the organizational processes are capable of meeting the requirements defined by the various standards and strategic goals (Zhang et al., 2014). This is followed by training to ensure that the new and updated processes are understood, implemented, and being followed.

Integration must also include the crucial steps of integrated reporting, auditing (internal and external), and management review, which creates the feedback and continuous improvement loop that is essential for any successful management system (Bebbington et al., 2014). This means integrating the value creation process into the governance systems of organization, including strategic planning and budgeting, management or business review, internal audits, and corrective actions (Eccles et al., 2014). This is what will ensure that implementation is happening and that the company stays on track to achieve its transformational goals.

Words Count, Actions Matter

To conclude, we believe Integrated Value Creation, or IVC, is an important evolution of the corporate responsibility and sustainability movement. It combines many of the ideas and practices already in circulation, but signals some important shifts, especially by using the language of integration and value creation. These are concepts that business understands and can even get excited about (whereas CSR and sustainability tend to be put into peripheral boxes, both in people's heads and in companies themselves).

More critical than the new label or the new language is that IVC is most concerned with implementation.

It is a methodology for turning the proliferation of societal aspirations and stakeholder expectations into a credible corporate response without undermining the viability of the business. On the contrary, IVC aims to be a tool for innovation and transformation, which will be essential if business is to become part of the solution to our global challenges rather than part of the problem.

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Road to Transparency: Relationship to Risks and How It Is Perceived and Handled by Chinese Extractive Companies Involved in Overseas Investment

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Abstract: This report is the result of a study project conducted by SynTao Co. Ltd. (SynTao) and the School of Economics and Management at Tsinghua University (Tsinghua SEM) from October 2014 to June 2015 on Chinese extractive industry's overseas investment transparency and risk management. Through a comprehensive case study and survey, the study set out to understand the perception of Chinese extractive companies on social and environmental risks and the factors that differentiate companies' disclosure-related behaviors. It is found that although most responding companies acknowledge the role of transparency in mitigating the companies' overseas investment risks, only 28% of the companies surveyed knew and implemented the transparency-related international rules or initiatives, among which the United Nations Global Compact and the Global Reporting Initiative (GRI) have the highest cognition and participation. The Guidelines for Social Responsibility in Outbound Mining Investments promulgated by China's Chamber of Commerce of Importer and Exporters in Metals, Minerals, and Chemicals and the Extractive Industries Transparency Initiative (EITI) focusing on the extractive industries, also, have relatively high awareness. Companies' official websites are the dominant mechanism for disclosure, while the importance of corporate social responsibility (CSR) reports is also well recognized. The companies with longer overseas investment histories demonstrate more sophisticated skills in handing transparency, as do state-owned companies and public companies. The content analysis of country-specific CSR reports issued by Chinese extractive companies in host countries indicates that the effectiveness of disclosure is worth noticing. Finally, in this study, challenges and opportunities for Chinese extractive companies are discussed, followed by implications for both practitioners in the industry and policy makers.

Keywords: Extractive industry, Chinese overseas investment, transparency, risk management

Introduction

China's overseas investment has grown rapidly over the past decade. In contrast to the overall trend of global direct investment, which shrank annually by 8% from 2011 to 2014, China's overseas direct investment grew with a compound annual rate of 16% (Ernst & Young Knowledge Management Center, 2015). In 2014, Chinese investors invested directly in 6,128 overseas companies in 156 countries across the world, with a total amount of investment reaching US$116.0 billion, and China's inward and outward investments approached parity for the first time (China Ministry of Commerce, 2015). In the next five years, it is estimated that China's outward direct investment will maintain a growth rate of above 10%, which means that the amount of outward direct investment will exceed that of inward investment in the same period (China Ministry of Commerce, 2014).

After years of efforts, China's overseas investments have become ever more sophisticated. Besides the increasing experience in global business management, firms involved in overseas investment have made continuous progress in terms of mergers and acquisitions, technology export, brand investment, market development, channel development, and construction of globalized talent team, among others. At the same time, Chinese companies investing overseas face growing competition from international markets and mounting social responsibility risks, including issues concerning operation in compliance with local laws and regulations, fair operation, localization and labor practice, ecological and environmental protection, community participation and social contribution, as well as stakeholder engagement, transparency, and cross-cultural integration (Li, 2014).

Among the numerous industry sectors engaged in overseas investment, the extractive industry is one of the most noteworthy sectors. On the one hand, energy and minerals investments are always of high interest among investors seeking overseas assets. In 2014, related transactions accounted for 16% of the total amount of M&A transactions (Ernst & Young Knowledge Management Center, 2015). On the other hand, due to the industry-specific characteristics, extractive companies also face more risks, especially the social responsibility risk. Therefore, the focus of this study is to explore the social responsibility risk of the extractive industry's overseas investment from the transparency perspective.

In 2014, SynTao and Tsinghua SEM partnered to launch a study project on Chinese extractive industry's overseas investment transparency and risk management. The aim of the project is to achieve the following objectives: (1) to understand the perceptions of Chinese extractive enterprises of social and environmental risks; (2) to understand the relationship between transparency and overseas investment risk management, and the influence of existing compulsory and voluntary global transparency initiatives on Chinese extractive companies with overseas investment; (3) on the basis of promoting communication among multiple parties, to give suggestions to companies and relevant government agencies on how to enhance the corporate social responsibility (CSR) risk awareness and improve transparency and risk management capability.

Transparency Trend

It has become a development trend in recent years that companies have become increasingly transparent, which is prominently reflected from the CSR reports published regularly by companies. A report published by KPMG in 2013 showed that an increasing number of enterprises disclose information through responsibility reports. This growth trend is especially prominent in emerging economies. In 2013, nearly three-quarters (71%)

of the surveyed enterprises in the Asia-Pacific region published responsibility reports, a dramatic increase from the 49% in 2011 (KPMG, 2013). CSR reports have become a business card of large companies. Most of the Fortune Global 500 companies have issued their own CSR reports. In China, the report number is also on the rise. The SynTao statistics indicated that the number of CSR reports publicized in 2014 within the People's Republic of China reached 2,032.

Besides the willingness and efforts of enterprises, the external stress and demands also contribute to the transparency improvement, many countries, including China, promulgated laws and decrees to stipulate the form and content of CSR reports. Some large stock exchanges also caught up the trend and launched corresponding initiatives. The three most used stock exchanges for Chinese companies, the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, have all developed relevant requirements targeting the CSR reports of their listed companies.

Transparency Rules of the Extractive Industry

Studies have found that company characteristics, such as size, industry type, and business location, all impact transparency (Lewis, Walls, & Dowell, 2014). Since the extractive industry has remarkable potential influence on the ecology and environment, and the operations mainly locate in less developed countries, involving sensitive problems such as natural resource exploitation, it is of high corruption risk. As a result, its lack of transparency has caused much concern with stakeholders and is increasingly putting pressure on the companies.

Over the past decade, a pattern where the general principles and special principles were integrated and the global framework and regional frameworks coexisted was formed under the close attention of the international society to the extractive industry's transparency. Besides traditional regulators and international organizations, continuously pushing extractive industry's transparency, specialized international agencies were also set up to boost the extractive industry's transparency (Figure 1).

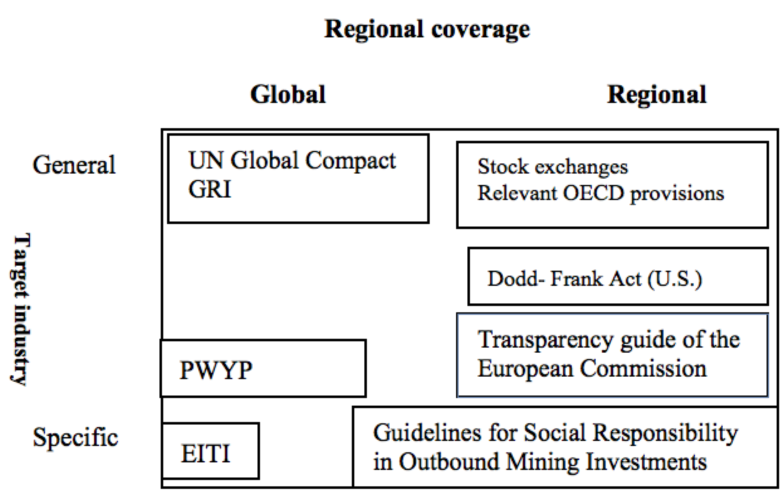

Figure 1. Regulations and pattern about extractive industry's transparency

The Extractive Industries Transparency Initiative (EITI) is the most noteworthy global initiative in this field; it was first launched in 2002 at the World Summit on Sustainable Development in Johannesburg for the purpose of improving corresponding governance of resource-rich countries by publicizing the amounts paid by oil, gas, and minerals companies to the government and the government's revenue information. After a decade of development, this initiative has become the most effective and widely used payment disclosure system in oil, natural gas, and mineral extractive industries. Currently, 48 countries have become members of EITI, agreeing to meet the EITI requirements; in addition, many other countries have announced intentions to participate in EITI and are now establishing institutional arrangements needed.

Since 2010, governmental organizations in Europe and North America have attached more attention to the transparency of the extractive industry, and incorporated it into legal supervision. In 2010, Sec. 1504 of the Dodd-Frank Act required the extractive enterprises that are involved in the commercial development of petroleum, natural gas, and mineral resources to disclose the payments to the US and foreign governments. This requirement was applicable to all companies listed in the U.S.A., regardless of headquarter location. It was originally planned that the extractive companies should make disclosure as from the fiscal year after September 30th, 2013, but given the stress and litigation actions of petroleum enterprises, the United Sates Securities and Exchange Commission postponed it for adjudication in 2016. In 2013, the European Commission adopted the Accounting and Transparency Directive, which would require the EU petroleum, natural gas, mineral, and lumber companies to publicize the information regarding the payments to outbound governments, and the UK, France, and other countries have begun to implement the suggested legislation. In 2014, the Canadian federal government officially announced the Extractive Sector Transparency Measures Act, requiring the companies engaged in the business development of petroleum, natural gas, and minerals to publicly disclose the payment to government and domestic government agencies in business operation. This act has been in effect since June 1, 2015 (Government of Canada, 2015).

Moreover, internationally, organizations such as OECD, the Global Reporting Initiative (GRI), and Publish What You Pay (PWYP) have paid close attention to and dedicated to boosting the transparency of the extractive industries.

As early as in 2006, China's Ministry of Finance has stated in its Corporate Accounting Principles No. 27 – Oil and Gas Exploration that companies are required to disclose information related to oil and gas exploration so that the reporting standards for oil and gas accounting can be maintained. In 2008, the Shanghai Stock Exchange issued "Format Guidelines for Interim Announcements of Listed Companies No. 18: on Acquisition and Transfer of Mineral Rights" to further regulate the disclosure behavior of listed companies. In the same year, the Shenzhen Stock Exchange announced its Memorandum No. 14 on Disclosure—Disclosure of Mineral Rights Related Information, which aimed at guiding the reporting of mineral rights-related information, so that the risk of mineral resource exploration can be sufficiently disclosed and the legal rights of investors can be protected. In 2011, initiatives were taken by the Shenzhen Stock Exchange to influence the small and medium-sized listed companies, with the issuance of Memorandum No. 6 on Disclosure for Companies Listed in the SME Sector—Investment on Mineral Rights. The guidelines specially aiming at outbound mining investments were published in 2014. The Guidelines for Social Responsibility in Outbound Mining Investments instructed by the Ministry of Commerce of the People's Republic of China and China Chamber of Commerce of Importers and Exporters of Metals, Minerals and Chemicals was officially promulgated at the end of 2014, which constitutes a voluntary social responsibility standard for China's outbound mining industry. The Guidelines emphasized that Chinese companies should undertake social responsibility by proactively investing abroad. Disclosure and transparency are the principal focus of the Guidelines.

Action Mechanism of More Transparency and Less Risk

The changes in extractive industries transparency rules have pressed the extractive companies to disclose more information than before. However, many extractive companies go beyond mere compliance in disclosure; rather, they implement a proactive and multi-facet approach to transparency, resulting from strategic and capability development considerations. On the one hand, along with the evolution of rules, the enterprises, in the course of study, will improve their communication skills and form more proactive and effective disclosing manners; on the other hand, more and more companies have realized that the operational risk is closely related to disclosure, and improvement in transparency will reduce the potential risks to a certain extent.

The core of the action mechanism between more transparency and less risk is “Corporate Legitimacy,” which constitutes the foundation for a company to operate legitimately in the world, holding the legal license in the traditional sense and the social license in the CSR perspective. The traditional ideas hold that as long as a company retains a legal license, it is authorized to operate righteously. However, the CSR movements over the past decades, especially the anti-sweatshop movement and Not-In-My-Backyard (NIMBY) movement, showed the limitation of this narrow understanding. Companies can only operate safely, steadily, and continuously with both the legal license and the social license intact.

The social license of an enterprise reflects the expectation of stakeholders towards the enterprise, which governs the extent to which an enterprise is constrained to meet societal expectations and avoid activities that stakeholders deem unacceptable (Gunningham, Kagan, & Thornton, 2004). This license exceeds the legal category and is subject to the judgment of core stakeholders. In the case of extractive enterprises, these core stakeholders include the local government, local residents, local employees, as well as upstream and downstream partners. If demands and expectations of these groups are not met, the business operation will bear significant risks. The root cause of these risks is that the corporate legitimacy is denied.

The disclosure and transparency principle emphasizes that the extractive companies disclose information properly. Non-financial information, such as compensation and contribution to local communities, should be included. At the same time, companies should maintain smooth communication channels and interactions with stakeholders. As a result, the legitimacy of the companies can be secured. The potential risks of a company (including the risk of non-compliance with disclosure requirements and other CSR risks) will be prevented or mitigated effectively. Therefore, proper disclosure and transparency will not increase risks but reduce the risks effectively. This is the action mechanism of more transparency and less risk (Figure 2).

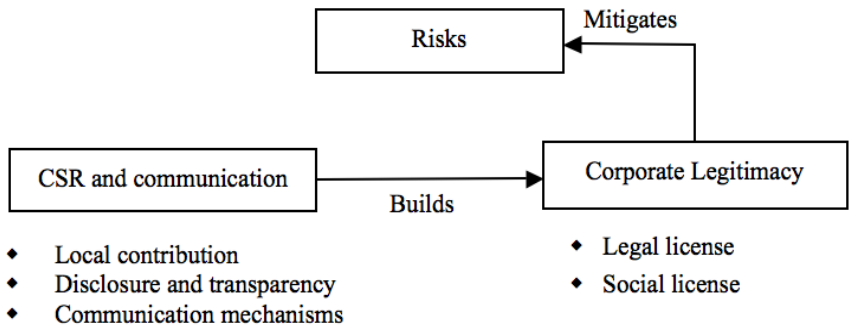

Figure 2. Action mechanism of more transparency and less risk

This mechanism, in essence, is to balance the business interests and social interests for coexistence and co-prosperity, which reflects the new concept of "resource for development" in recent years. This concept aims at breaking the "resource curse" in the economic development history. The "resource curse" refers to the counter-intuitive notion that countries with an abundance of natural resources, such as petroleum, natural gas, or minerals, tend to have less economic growth, more conflicts and corruptions, and comparatively slower development than countries with less natural resources. Therefore, the abundant resources have not benefited local communities but triggered various crises. The "resource curse" happens for many reasons, including (1) some companies do not have a long-run perspective; they only aim at resource exploitation, access to international markets, or to gain profits in their home markets through these resources, and, consequently, local social development is the least of their concerns; (2) some local governments of the less-developed countries have outdated governance philosophies and serious corruption problems; the funds originating from resource exploitation have not benefited the local communities but just widened the gap between the rich and the poor and triggered a vicious spiral. Organizations like EITI believe that the international community, when talking about natural resources, should adhere to the concept of "resource for development"; only in this way can the "resource curse" be broken. However, this course will not occur naturally and is subject to external force, the key levers being disclosure and transparency, through which the real owner of resources (namely, local communities) can exert proper supervision to make sure that government and extractive companies share the value of resources. From the perspective of extractive companies, this is likely to weaken the short-term benefits, but, in the long run, the improvement in political stability and civil society of the host country will make the business of the extractive companies develop more safely, continuously, and steadily.

Methodology

Several methods are implemented in the study, including literature review, corporate interviews, fieldtrip studies, questionnaire surveys, and focus group meetings (and workshops) with stakeholders. Through this comprehensive and in-depth methodology, we expect to advance our understanding of the transparency issue residing in the extractive industry's overseas investments, and, accordingly, to give feasible suggestions.

Surveys are perhaps the most widely used method in understanding opinions; consequently, we adopted the use of surveys as the core research method in this study. The questionnaire includes questions on company attributes, transparency perception, transparency practice, and communication with stakeholders. Besides open-ended questions, several measurement methods are used, including 7-point Likert-scale measures for perceptions, categorical measures, multiple response measures, and ranking. The questionnaires were sent and filled out online, and 65 valid questionnaires were collected. Among the 65 questionnaires, 78.46% of the respondents are from state-owned enterprises. The distribution of focal industrial sub-sectors is as follows: oil and natural gas extraction (30.77%), nonferrous metal mines (21.54%), and ferrous metal mines (18.46%). Nearly two-thirds of the enterprises are publicly listed, and about 78% of the enterprises have invested overseas for more than 5 years. The number of countries and regions invested ranges from 1 to more than 100, and are located mainly in South America, Africa, the Middle East, and South-East Asia.

This Study also collected and analyzed 23 CSR reports released by Chinese extractive enterprises in specific host countries. These reports are comprehensive reflections on the frontier practices of Chinese extractive companies in terms of transparency, and, consequently, are used as a special sample in this study.

Main Findings

Transparency Cognition and Practice

The survey respondents generally deem political instability and personal safety as the greatest risks among all major risks companies face in overseas investment, which is followed by property security, environmental protection and labor disputes. Financial conflicts (i.e., the financial risks originated from the perspective of stakeholders, mainly including the conflicts between enterprises and shareholders, creditors, governments, and so on, arising from conflicting interests); bribe demands are also important, though to a lesser degree (Figure 3).

> *A Chinese company has been operated in Laos for many years, originally as a labor contractor and has been gradually moving into other businesses. The mineral business invested in by the company is now in the early stages of exploration.*
> *When talking about the assessment and response to the social risk of investment in Laos, the employees commented that*
> *"The first priority is the consideration of political risk! Laos is a country with stable political and social environment, but as a Chinese company, we always pay attention to changes in political situation and are worried about the involvement of some political forces. Inequality and polarization between the rich and the poor prevails in Laos and corruption is rampant too. With the well-developed Internet in current days, once the social issues are taken advantage of by certain foreign political forces, it would be hard to tell what will happen. In case of political turmoil, our personal safety will not be guaranteed and the company and personal property will be threatened, which may interrupt project flows and increase investment cost."*

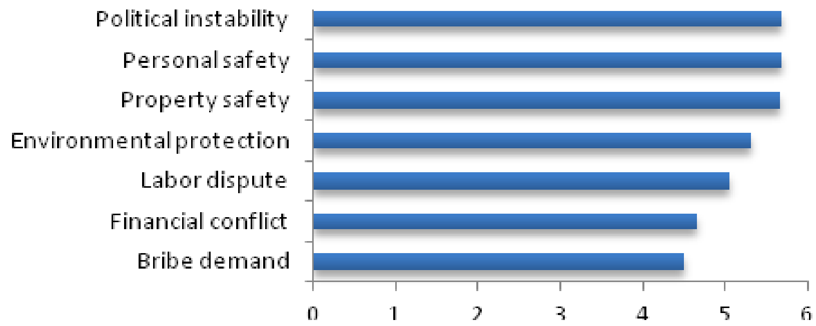

Figure 3. Major risks in the face of companies' overseas investment

The mechanism discussed in the previous section suggests that transparency and risk are negatively correlated; that is, more transparency results in less risk, and the survey results basically support this argument. Most responding companies acknowledge the role of transparency in mitigating the companies' overseas investment risks (Figure 4).

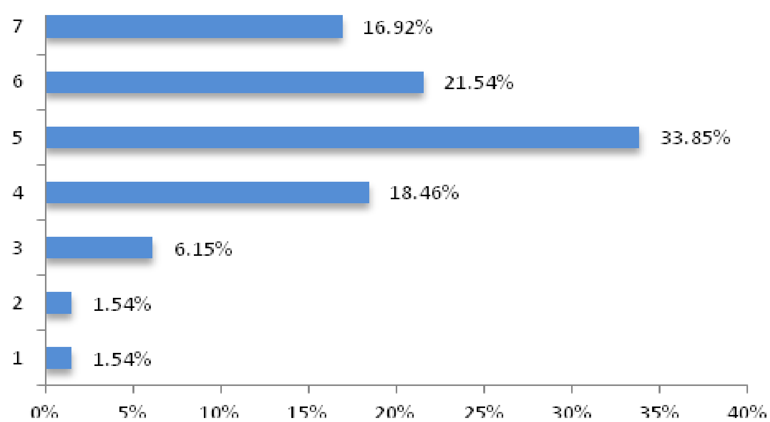

Figure 4. Role of transparency in reducing companies' overseas investment risk

However, recognizing the importance doesn't mean actions would have been taken. Only 27.69% of the companies surveyed, all of which are state-owned enterprises, both knew and implemented the transparency-related international rules or initiatives. Another 27.69% of companies have never heard of relevant international organizations or standards. Among the numerous international organizations, actions, standards, and initiatives, comprehensive general standards, namely the *United Nations Global Compact* and the *Global Reporting Initiative (GRI)*, have the highest cognition and participation, which is in accordance with expectation. It is observed that the influence of the China Chamber of Commerce of Importer and Exporters in Metals, Minerals and Chemicals has begun to rise. About a fifth of the interviewees were familiar with the Guidelines for Social Responsibility in Outbound Mining Investments promulgated by it. The *Extractive Industries Transparency Initiative* (EITI), focusing on the extractive industries, also has relatively high awareness (Figure 5).

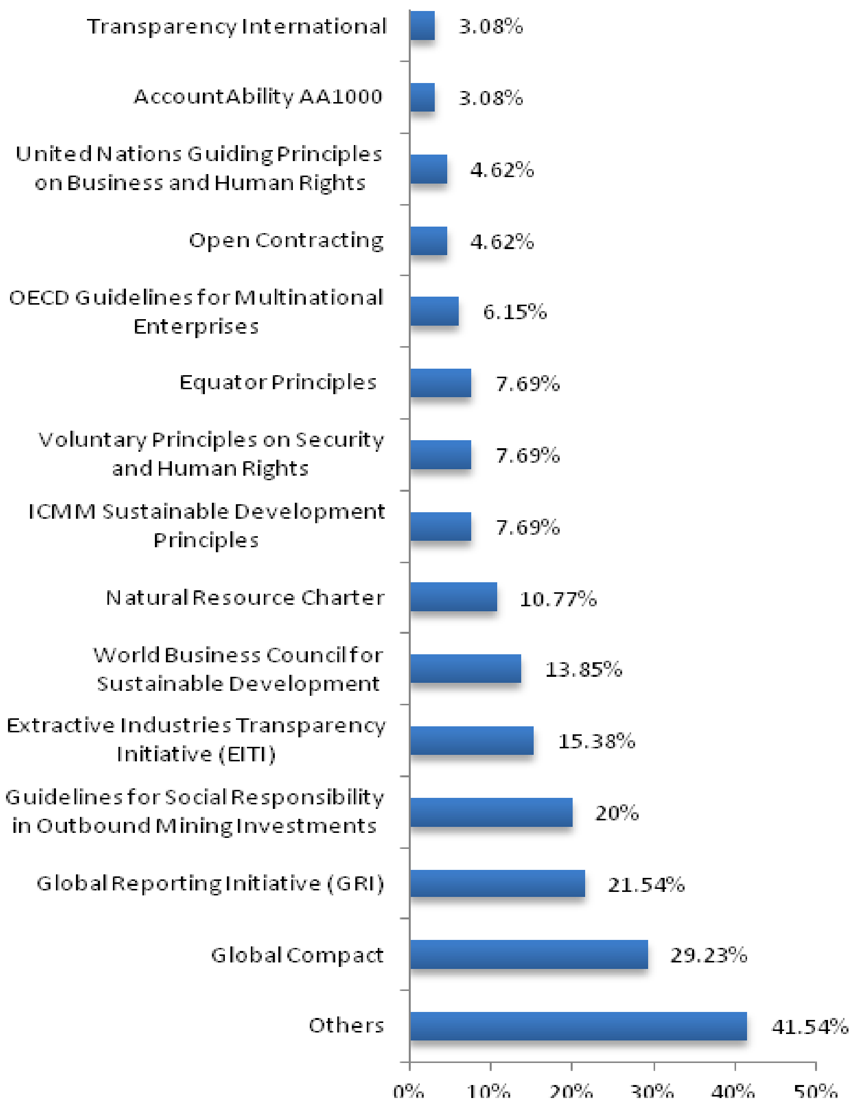

Figure 5. Organizations, actions, standards, and initiatives enjoying the highest cognition and participation[3]

Of the companies surveyed, 55.38% have set up one or more measures or mechanisms for disclosure in their overseas investment, among which state-owned enterprises account for nearly 89%. The main approaches of disclosure include the companies' official websites, CSR reports issued at the head office, country-specific reports on CSR, and communication meetings with stakeholders, media interviews, and social media platform. About three-quarters of the companies disclose the overseas investment information on their official websites,

[3] Chapter 2 of this Report elaborates on some of the most influential requirements, initiatives, or guidelines regarding the extractive industry's transparency, whereupon, the surveyors solicited comments on the items through a preliminary questionnaire, and put the suggestions obtained in the options of the final questionnaire.

over half of the companies disclose through CSR reports issued at the headquarter and communication meetings with stakeholders, and companies disclosing information by accepting media interview and issuing country-specific CSR reports accounted for 44.62% and 36.92%, respectively (Figure 6).

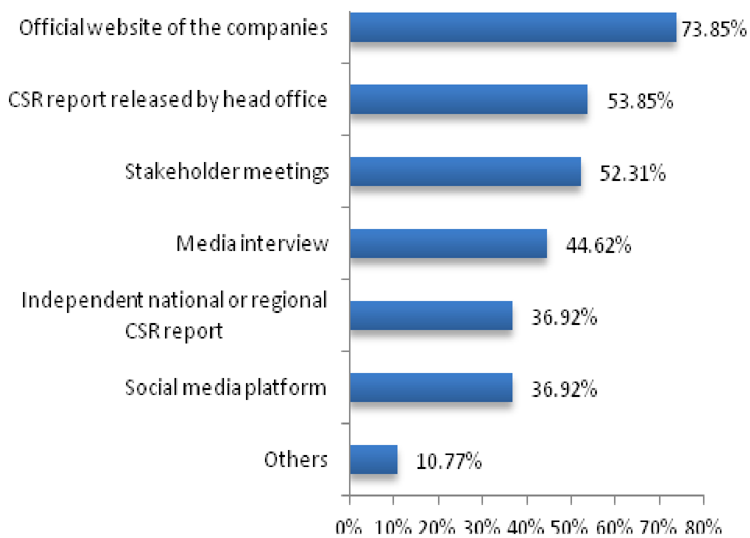

Figure 6. Information disclosure manners adopted

Many companies recognize that the most important benefit from following compulsory disclosing requirements is the enhancement of corporate brand and image. Moreover, the compulsory disclosure is helpful to meet the requirements of government and local business partners, protect the interests of investors, and improve the relationship with local communities. Comparatively speaking, the compulsory information disclosure is of less significance for securing employees' interests, avoiding financial risks, and protecting local environment (Figure 7).

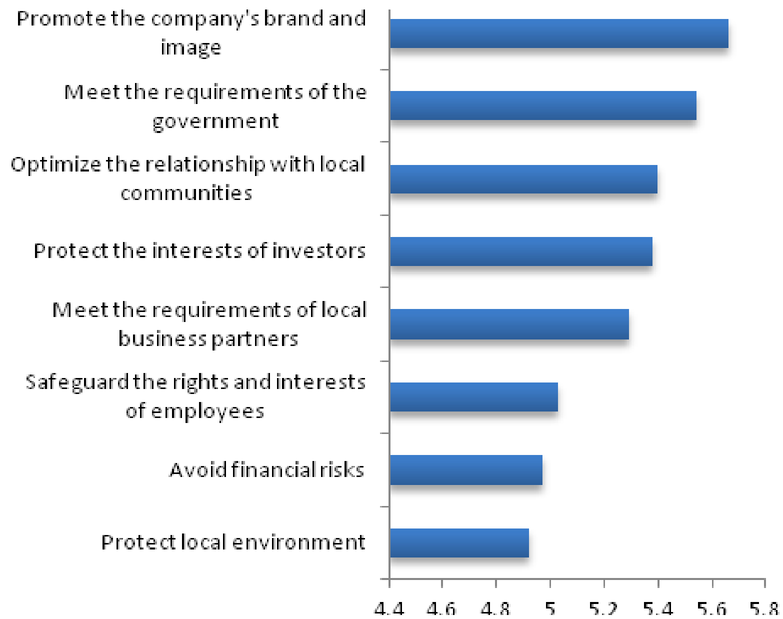

Figure 7. Benefits gained from compulsory information disclosure

Although the adoption rate of disclosure by Chinese companies involved in overseas investment is increasing, the surveyed companies also expressed concerns on obstacles and challenges; for example, the companies were usually worried about leaking trade secrets due to disclosure, the absence of matching compulsory requirements for disclosure in China and the host country, unfamiliarity with national conditions, legal system and regulatory requirements of other countries, etc. (Figure 8). In their opinion, management support is most important in the implementation of disclosure measures, which is followed by the shareholders' support.

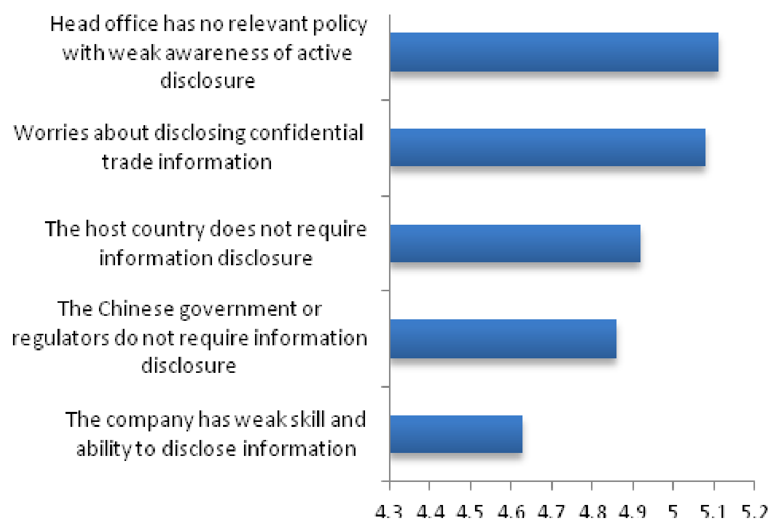

Figure 8. Factors prohibiting companies to improve their overseas investment transparency

Communication with Stakeholders

Well-executed disclosure and improved transparency are the precondition of enhancing the communication with stakeholders and establishing trust, which implicates that one-way information disclosure is not enough, and the one-way information disclosure should be complemented by two-way communication, receiving feedback while expressing opinions, forming a positive feedback loop, and further improving transparency.

In this survey, 64.62% of the respondents said that they have set up communication mechanisms with stakeholders in the host country when making overseas investment. The principal mechanism was regular or irregular visits to and communication meetings with stakeholders. However, most of the communication meetings only involved government departments, suppliers, and internal employees. Only a few companies have considered communication with local communities, media, and chambers of commerce. The complaint-resolving mechanism and joint management meetings have also come into sight of companies. In case of significant problems, companies would communicate frequently with relevant parties through written correspondence and face-to-face meetings. Companies considered the local government as the most important stakeholder, followed by shareholders or investors, and residents from the local community. The local non-governmental organizations and international organizations have not been considered as important stakeholders (Figure 9).

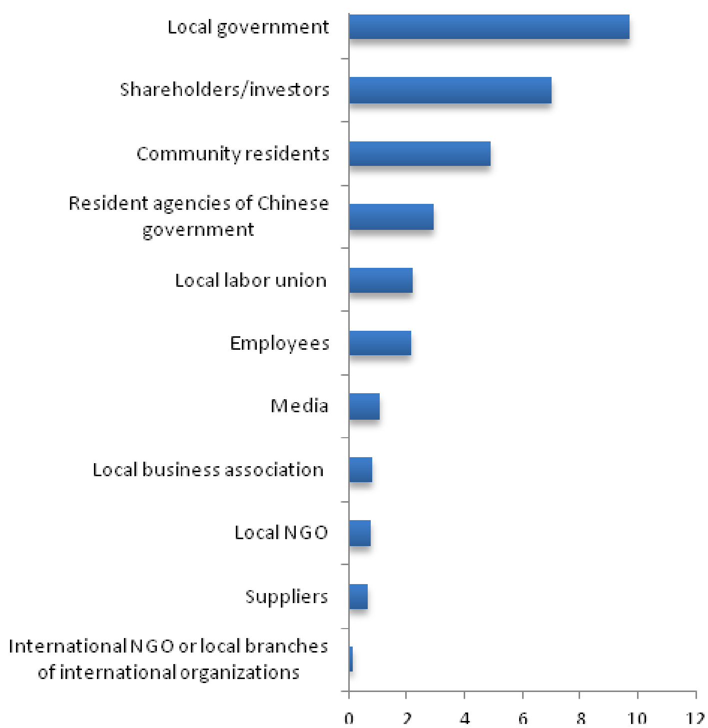

Figure 9. Stakeholders prioritized by companies

The communication with NGOs has always been the weak link or even the blind spot in communication between Chinese companies and stakeholders, but its role in outward investment and extractive industries cannot be underestimated. In our survey, over half of the interviewees said that their employers had not communicated with NGOs (including the local NGOs of host country and international NGOs) as actively as expected (the international NGOs even fell outside the top three stakeholders concerned) and believed that the main inhibitor was that NGOs had never contacted them, followed by not knowing how to communicate with the NGOs (Figure 10). The companies that did communicate with NGOs preferred to communicate with international organizations or NGOs with government background.

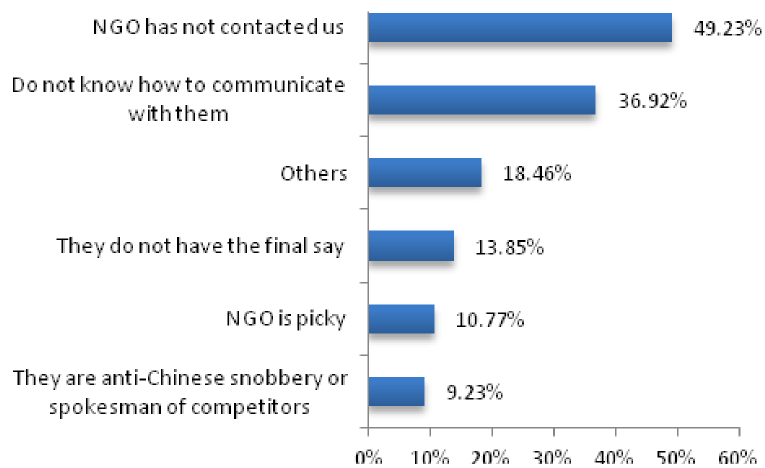

Figure 10. Reasons of non-communication between companies and NGOs

> *In the Southeast Asian countries we visited, Chinese companies showed little enthusiasm when talking about their relation with NGOs. At times, some stereotyping ideas about NGOs would jump into the conversation. A Chinese company hired a seasoned and famous environmental impact assessment (EIA) company through bidding to assist the approval process of a project. A thorough and thick EIA report was submitted after investigation. Then, for a very long time after the submission, there were numerous revisions and a dozen rounds of communication with the relevant departments in the host country, who would give feedback to the EIA report each time, and the Chinese company took them seriously, no matter how trivial the problems were. This delayed the project launch, which was very costly. In a recent round of communication, when the host country government proposed to get an NGO involved in the EIA, the Chinese company flatly rejected the idea, because it was not familiar with NGOs, and the company was concerned that NGOs might be influenced by third parties.*

Differentiating Factors

The comparison of different groups found that the extractive industry companies that have run overseas business for a longer time had stronger awareness of risk and stronger awareness of the mitigating effect of transparency on risk. As a consequence, such companies usually are more active in communication and utilize more channels. As to the country-specific CSR reports, companies with experience of over 20 years have a much higher rate of adopting this method than other companies (Figure 12).

In contrast, companies with comparatively short overseas experience rely more on the Chinese government. With the accumulation of overseas experience, more companies found the role of local government important, a trend also seen with respect to residents of local communities. However, the importance of investors and shareholders tends to decrease gradually as experience increases (Figure 13).

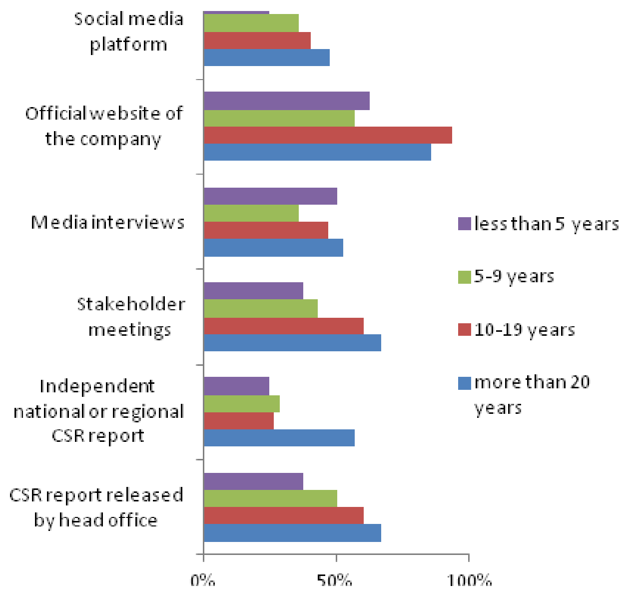

Figure 12. Cross-sectional analysis between overseas operation time and information disclosure manners

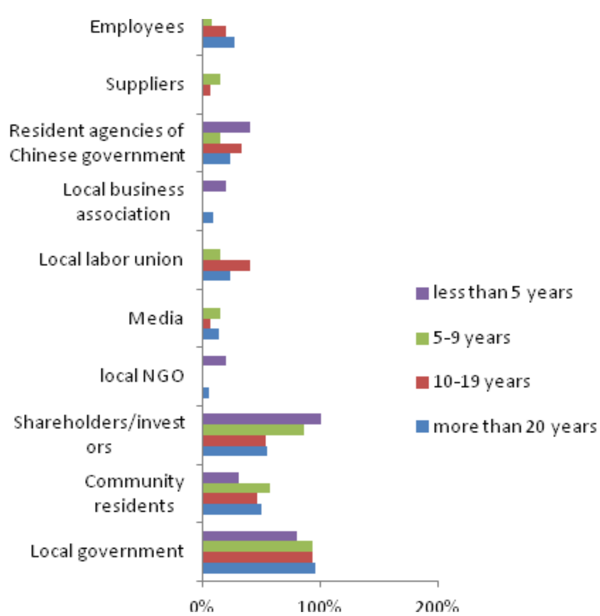

Figure 13. Cross-sectional analysis between overseas operation time and prioritized stakeholders

From the perspective of ownership type, listed companies have deeper recognition that information disclosure can mitigate risk efficiently than do non-listed companies; state-owned enterprises tend to agree more with the concept that transparency can mitigate risks. This may be attributed to two reasons: (1) listed companies and state-owned enterprises are easy targets of supervision and can be influenced with larger odds by such kinds of risks, so they have a stronger risk-prevention sense; (2) listed companies and state-owned enterprises have relatively more developed management procedures and richer experience with respect to information disclosure, resulting in a deeper understanding of the risk-reducing effects of transparency, vis- à-vis non-listed companies.

Further comparison found that listed companies are more inclined to disclose information through company websites and CSR reports; non-public companies are more inclined to communicate with external stakeholders through communication meetings and media interviews. Despite the influence of company characteristics, stakeholder communication meetings are regarded as more effective than media interviews (Figure 14).

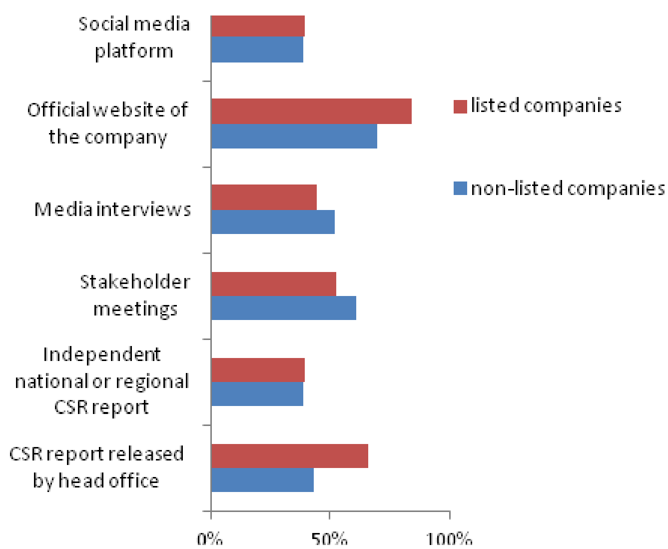

Figure 14. Cross-sectional analysis between company properties and information disclosure manners

Country-Specific CSR Reports of Chinese Extractive Companies

According to our knowledge, as of June 2015, 7 Chinese companies in the extractive industry have released 23 overseas CSR reports covering 13 countries or regions. Among them, the earliest report was published by the Sinosteel Group in 2007; the China National Petroleum Corporation had the widest coverage (covering more than 4 countries and regions); and Minmetals Resources Limited, a wholly owned subsidiary of China Minmetals Corporations, had the best continuity and quality in reporting (reports have been released consecutively for 6 years). It is important to note that all the 7 companies are central enterprises or their subsidiaries.

Key Responsibility Issues

From information disclosed in overseas CSR reports, it can be seen that most of them have combined the characteristics of the mining industry with economic, social, and environmental development needs of the host countries and have developed different degrees of cognition and appraisal on the potential social impacts generated through the operation processes. All the reports have illustrated the social responsibilities involved in overseas business from their corporate culture and values and reflected the company's aspiration to create greater value and support the host country's economic and social development through resource extraction.

The key responsibility issues covered in these reports are relatively comprehensive; they include corporate governance, sustainable operation, stakeholder engagement, employee safety and health, ecology and environmental protection, respect for human rights and labor, human resource development and training, supply chain management, community development and integration, aboriginal rights, and cultural protection. Among them, the safety and health, ecology and environment protection, employee rights and training, localized purchasing, and community development and integration are key responsibility issues. Due to the sensitivity of the resource extraction's environmental impacts, the environmental protection information occupies considerable length in most reports, and some reports also put forward the ecology and environment protection design scheme in the project's full life cycle. Notably, various companies present themselves as being committed to promoting the local economic and social development and the welfare of the community residents by means of financial donations, enhancing local employment, supporting local purchasing, and/or financing for the local community development and public welfare projects. Most of the overseas CSR reports introduced practical cases for illustration.

Minmetals Resources Limited, which mainly operates in foreign countries, clearly expressed in the report that "major issues of sustainable development refer to the various economic, social or environmental risks and opportunities that may produce major positive or negative impacts on company and stakeholders." It also contained an "importance matrix" of responsibility issues and illustrated the actions and results one by one in the annual sustainable development report.

Stakeholders Identification and Communication

All of these reports have clearly defined stakeholders in the overseas business, but the importance of different stakeholder groups various according to their own focus. However, governments of both home and host countries, investors, employees, partners, environment, and community are generally mentioned as the important stakeholders. Some companies also include their clients, peer companies, and NGOs in the stakeholders list. More than half of the reports have claimed that the company has established a communication mechanism with stakeholders and regarded the transparency as well as stakeholder engagement as a core responsibility and backbone for sustainable development. According to the reports, some companies also have set up specialized departments and personnel to be responsible for day-to-day stakeholder communication. Half of the reports show that the company has obtained honors and encouragement for its overseas responsibilities from host governments or international institutions.

Deficiency in Information Disclosure

Overall, very few Chinese companies investing abroad have published overseas CSR reports. However, all the existing reports have advocate the international business philosophy – "mutual benefit for a win-win situation, cooperation for development" – and showcase their best practices on fulfilling economic, social and environmental responsibilities, which echo the idea of "resource for development."

The existing reports are not without problems: first, the completeness and continuity of the reports still have room for improvement; second, limited quantitative information is provided in the reports; third, the disclosure of information indicating external risks and negative information is insufficient; fourth, some reports lack illustrations for cases, and the expression is not specific enough, which may result in insufficient persuasiveness and comprehensibility; last but not least, some of the reports cannot be downloaded from the official company websites, which jeopardizes the accessibility of the reports.

Challenges and Opportunities

Transparency Challenges of Chinese Extractive Industry

Chinese companies have established strong market economy awareness over a long period of time. Since it is a market economy, "business is just business." As long as the price is acceptable, other factors are regarded as irrelevant. Thus, supplementing elements, such as labor conditions, community livelihood and environmental issues, are not taken into account for the traditional investment decision. However, these elements consciously or unconsciously neglected by companies are the key points that a transparency approach emphasizes. Yet, many companies do not realize that nowadays the concept of corporate social responsibility is becoming increasingly popular. Exclusive focus on product price, in turn, causes various problems instead.

In China, government holds a crucial position. In particular, many local governments in China play a leading role of bringing in investment. Thus, once companies come across problems, they immediately turn to the government. Unconsciously, such corporate behaviors are also applied to the overseas investment projects. As the institutional environments abroad are quite different compared to China, local communities, trade unions, and NGOs are all important stakeholders. Yet, companies rarely communicate with them proactively and do not present enough willingness to disclose information. In addition, affected by the Chinese traditional culture of "silence is gold" and the attitude of "doing is better than saying," it is a common phenomenon that many companies do things without mentioning them or work more but communicate these actions insufficiently, which reflects a low corporate awareness for the benefits of transparency.

Even if some companies have realized the value of transparency, most of them still come across obstacles due to weak capacity. Though CSR disclosure as a concept is known by more and more Chinese companies, the related activities are mostly handled by the corporate headquarter, while staffs of overseas subsidies have insufficient understanding of the same. Thus, they can't make good use of some well recognized standards and guidelines, such as EITI, GRI, and Global Compact to disclose CSR information. In addition, for more complex CSR information, such as carbon emissions, the quantitative measurement system has yet to be built.

Companies also lack of capacity for stakeholder communication based on CSR disclosure. Companies should not solely pay attention to disclosure and transparency because the ultimate goal of disclosure and transparency is to enhance communication and build trust. Information disclosure is a "one-way street"; in which companies make a statement to the public; however, communication is a "two-way street" in which companies not only express their opinions and inform stakeholders, but also receive feedback or even start debates. Companies of the Chinese extractive industry are relatively weak in communication as a "two-way street" due to political culture and language reasons. This creates obstacles that prevent companies from effectively communicating with their stakeholders. Consequently, though relevant information is disclosed, it fails to achieve its expected effect.

Another type of capacity companies are short of involves experience and skills around community engagement. For most extractive companies, CSR risks are often rooted in the local community. Thus, the motivation for many extractive companies to improve transparency is to improve communication and community engagement. As Chinese companies have only learned some relatively simple approaches around community engagement, it is a great challenge to them given the complex circumstances in foreign countries. Thus, Chinese companies should learn more community engagement methods that are more tactical and systematic, allowing them to fully leverage the potential benefits of transparency.

During this study, some companies pointed out the issue of information disclosure platforms. Currently there is no information sharing platform customized for transparency issues of overseas investment for extractive industry, so companies do not know where to disclose their information, and stakeholders, also, do not know where to acquire information. The result of such a situation is a higher cost of communication. We have encountered a similar situation during fieldtrip study. The company has already published CSR reports, while key stakeholders like local communities and NGOs caring about the development of the project had no idea about the report at all, and it was also difficult to find and download page of this CSR report on the company's website. For this point, we can learn from the US experience. In the US, the government mandates that companies investing in Myanmar shall disclosure information on a specific web page of the US State Department.

In addition, the lacking insight of most companies with respect to which NGOs to approach in order to efficiently disclose information and communicate with relevant stakeholders hinders the overall adoption of transparency policies. In some areas, a grassroots NGO can be established by a small group of people, which represents the interest of very specific groups. As consequence, companies have difficulties identifying the most appropriate group or institution to interact with. Thus, companies expect external powers for help.

Chinese extractive companies also expect that they can have the chance to cooperate with an NGO with Chinese background when they work on community engagement projects. However, Chinese NGOs with sufficient competence and experience is rare. One of the cases encountered during a fieldtrip study: A Chinese company attempted to collaborate with a Chinese NGO. However, this Chinese NGO had never conducted activities in the host country, and, therefore, it required more money to kick-off the project. Eventually, the company gave up on the project. This is a typical case that reminds us to ponder how to help competent Chinese NGOs (and Chinese media) to internationalize together with companies. An option would be sharing of the related cost by several companies or being borne by the Chinese government instead of burdening a single company.

Transparency Opportunities of Chinese Extractive Industry

In the long run, there are both external pressure and internal impetus for Chinese companies in the extractive industry to improve their transparency. In recent years, the pace of overseas investment of Chinese companies has been getting faster and faster, but its reputation is lagging. There is a strong need for China to build a more positive image of its overseas investment. In order to achieve this, a higher degree of transparency and information disclosure by the investing companies is crucial. The implementation of the "One Belt, One Road" initiative (referring to the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" has further increased the urgency to adopt transparency standards for Chinese companies. The recently-launched Asian Infrastructure Investment Bank (AIIB), which is closely associated with the "One Belt, One Road" initiative, also proposed three objectives in preparation process, namely "Lean, Clean and Green." Two of these three objectives (clean and green) are immediately related to transparency. Thus, from a macro perspective, transparency is a problem that needs to be addressed.

From a micro perspective, companies face gradually increasing external pressure. Previously, media reported that the failure rate of overseas investment projects was relatively high, and most cases were related to the strike of workers, environmental pollution, local villagers protesting, etc. while only few were caused by financial problems. These problems will force Chinese companies to enhance social responsibility performance and improve information disclosure and transparency. From the point of view of the company itself, the larger companies are and the more eager they are to establish long-term overseas operations, the more they should be interested in maintaining a good relationship with the local community and other stakeholders and establishing a positive image.

The implementation of transparency for China's extractive companies does not start from nothing. On one hand, CSR disclosure is not entirely new to many large-scale extractive companies, especially state-owned enterprises. Some central level state-owned enterprises have had experience with CSR reporting for several years. On the other hand, there are already some Chinese companies with overseas investment disclosing information in accordance with local standards. For example, EITI conducted an analysis recently on the disclosure performance of Chinese companies in EITI countries and found that Chinese companies disclose information on payments to governments to the same extent as companies from other countries. In 6 EITI countries, Chinese companies even participate in multi-stakeholder groups (MSGs). These experiences can provide examples for other Chinese companies.

These preliminary achievements of Chinese companies are gradually recognized by the international community. The above-mentioned EITI report is one of such cases. Coincidentally, Boston University released a study report in the Global Economic Governance Initiative (GEGI) and pointed out that Chinese companies are not significantly weaker than companies from other countries on CSR in its overseas investment, and they even outperform in some regions.

Regardless of the practice of domestic companies, Chinese extractive companies with overseas investment should learn from rich experiences of developed countries. Multi-national giants from Britain, the U.S.A., Australia and other countries were engaged in the exploitation of petroleum, mining and other mineral resources around the world in the past, during which they also encountered similar problems. For example, Shell encountered continuous protests for its investment in Nigeria, which even caused a stir in the world. This issue drove Shell to accelerate its efforts around corporate social responsibility, including publishing CSR reports. To build upon these experiences and lessons will be of great benefit to Chinese companies.

In addition to historical experience, the ongoing practice conducted by some companies from developed countries is also worthy of attention. For instance, in Myanmar, early mover investors, such as Coca Cola and Telenor, are very cautious in information disclosure and transparency. It is very helpful to learn the ideas and methods of others.

Practical and Policy Implications

Increasing information disclosure and transparency for overseas investment will be a trend for a long time in the future. With the Chinese companies' involvement with outbound direct investment intensifies, companies, as well as policy makers, need to adapt and embrace the changes. Based on the findings of this study, some practice and policy implications are listed in this section.

The Transparency Mindset

Transparency for the extractive industry is a comparatively new subject to both the government and companies. Based on the above analysis, it is suggested that both government departments and, especially, companies need to switch the mindset to fully recognize the value of corporate social responsibility and transparency. In particular, they need to note that (1) corporate social responsibility is the requirement of the new era and is, also, mandated by risk mitigation considerations; (2) it is necessary to proactively communicate because to say is of equal importance as to do; (3) both civil society and host countries' governments are important stakeholders with whom companies should have dialogue.

For companies to switch the mindset needs deeper research, understanding of specific requirements of information disclosure in compliance with industrial and local regulations, and general practice of voluntary disclosure. For headquarters of large multinational companies, it's necessary to enhance the communication with overseas subsidiaries on the issue of transparency.

For the government, a special study should be conducted on the international trend of transparency for the extractive industry so as to analyze the potential impacts of standards and guidelines such as EITI, OECD, and other international organizations.

Progressive Steps from Closed-Door Stakeholder Dialogue

To enhance transparency and make good use of it to reduce risk is a gradual process. For companies without any experience, the initial step is to identify key stakeholders and understanding their requests for information disclosure and transparency, rather than disclosing information rashly. In the extractive industry, the government and local community residents are usually part of the key stakeholders. Chinese companies often keep close communication with the government, not with local residents and NGOs, which may result in a lack of mutual understanding, not to mention mutual trust. Therefore, for companies to start the dialogue with stakeholders is a very first step. Generally, such dialogue must follow some principles, such as dialogue on equal footing, and closed-door meetings. Otherwise, it is difficult to carry out. An experienced moderator is another key to success.

In addition, this study finds out that many companies say they don't know anything about local NGOs or have concerns about international NGOs. These problems could be solved through a dialogue platform established by government or civil organizations (such as business associations). The government or civil organizations can convene closed-door dialogues for related companies, residents, and NGOs by region or by topic so as to strengthen mutual understanding.

Shared Platform for CSR Reports

A Corporate Social Responsibility report is a concrete way to display important information. Capable extractive companies may publish country CSR reports for their overseas investment. This approach can even be applied to the project level for significant projects or those lacking legitimacy. This study finds that such reports can contribute a lot to stakeholder communication.

However, after the release of such CSR reports, many companies only upload reports to their official website where the links are not very conspicuous. Consequently, people don't know where to find them or where to download the reports from, which limits the value of CSR reports. To solve this problem, government or business associations can develop a shared platform or database for companies to publish CSR reports. Such a platform could subsequently, also, expand to other areas and be more integrated with risk information and regional dialogue related to overseas investment.

Companies with Leadership

Compared to other types of companies, state-owned enterprises and listed companies have comparable advantages with regard to transparency. Some of them have done a good job. Therefore, if the government plans to improve transparency performance of extractive companies, they can start with state-owned enterprises (especially central level ones) and listed companies. These companies are usually leaders in the industry, which can play exemplary roles.

The study also finds that companies with an experience of overseas investment for over 20 years often do better on transparency issues. The government can carefully analyze the experiences and lessons of such companies so that others can learn.

Talent Development for the Long-run

The promotion of transparency depends on professional talents. At present, there are not many people who are familiar with corporate social responsibility for the extractive industry's overseas investment and even fewer people who concentrate on transparency issues. Many people working in companies lack the skill and experience to communicate with the grassroots NGOs and community residents, posing further challenges to this facet of corporate transparency. Therefore, the government, business associations, and companies should pay attention to cultivating professionals and focus on medium- and long-term capacity building.

Partnership, NGOs and the Media

At present, it is the government and companies that proactively go abroad and invest. In some cases, companies closely follow the steps of the Chinese government. However, this study finds that companies also hope the Chinese media can strengthen exchange and cooperation with local media in host countries, and Chinese NGOs can help companies to carry out community activities overseas.

In response to such needs, we suggest that NGOs and the media work together with government and companies. These four parties (government, companies, NGOs, and the media) can form a four-in-one partnership for overseas investment. The government should strategically support the Chinese media and NGOs to work on overseas issues, including offering preferential policies, financial support, capacity- building training, etc.

Acknowledgement

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A Discussion on the Legal and Ethical Challenges for Chinese Overseas Investment: Risks, Contributors, and Measures

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Abstract: The Chinese economy is becoming more internationalized these years, and Chinese enterprises are stimulated by the current "one belt, one road" initiative, as well as the "going out" strategy to increase their overseas investment, though there are accompanying more risks to deal with. Based on the present situation, this article aims to inform Chinese enterprises of the legal and ethical challenges in overseas investment activities and proposes suggestions on how to achieve sustainable business by identifying the investment risks and analyzing their root causes.

Keywords: Chinese enterprises, overseas investment, legal risk, ethical risk

Introduction

Over more than 30 years of reform and opening up, the Chinese economy has become increasingly internationalized, and the current "one belt, one road" initiative, as well as the "going out" strategy, accelerates the growth of China's foreign investment. According to the World Investment Report 2014 published by the United Nations Conference on Trade and Development (UNCTAD) on June 24th, 2015, China's outward foreign direct investment (FDI) tended to exceed its inward FDI in a short time, turning China into a net investor. Data from the International Finance News showed that China's outward FDI reached US$116 billion in 2014 with a 15.5% yearly increase. Should the reinvestment of the third place capital be included, the figure could be around US$140 billion and higher than that of inward foreign investment; thus, China has already been a net exporter of capital in 2014. In stark contrast to the rapid growth of foreign investment volume, Chinese enterprises repeatedly encountered difficulties abroad, and many have suffered huge losses due to the failure of their overseas projects (Fu, 2014). The "one belt, one road" initiative stimulates China's foreign investing activities and facilitates cross-national cooperation; meanwhile, how to mitigate investment risks turns out to be a top issue on the agenda for Chinese enterprises. In recent years, a number of scholars and professionals have inquired into the legal and ethical risks in Chinese enterprises' overseas investment with impressive results. The classification and the source of foreign investment risks are among the most concerned research topics, and the study on operational risks is particularly systematic. Based on the present situation of China's FDI, this article aims to inform Chinese enterprises of the challenges with regard to legal and ethical issues in foreign investing activities and proposes suggestions on how to achieve sustainable business by identifying the investment risks and analyzing their root causes.

Legal and Ethical Risks for Overseas Investment by Chinese Enterprises

Legal Risks for Overseas Investment by Chinese Enterprises

The legal risks of overseas investment that Chinese enterprises are confronted with are related to the general legal environment of the host country, the acquisition project, the target company, the initial negotiation and bargaining, the terms of the acquisition, the potential default of the counterparty, the changing of applicable laws, the approval of the host government, and the compliance of the operation (Zhang, 2013).

At the operational level, the legal risks to Chinese enterprises investing abroad lie in the following stages of project development and implementation: (1) preparation stage, (2) early stage, (3) mid stage, and (4) later stage.

Legal Risks in the Planning of Overseas Investment

The legal risks during the pre-investment preparation. The legal risks during the foreign investment preparation are mainly the risks of the feasibility of the overseas investment projects itself, especially the investment target selection and the investment location choice.

For the investment target selection, on the one hand, the firms know a little about the liabilities mode and the actual business model of the company, which lead to unsustainable status after completion of the acquisition, and they have to file for bankruptcy. On the other hand, the situation that we consider ill for market access rules leads to the national security litigation, which results in mergers and acquisitions failures. In addition, many factors, such as the credit status of the contract counterpart and other factors, should also be taken into account. Firms may bear the risks of unforeseen conditions about the contract counterpart's credit terms. The typical case is that the enterprise involves in the dispute a third person in the exercise of subrogation or cancellation right. For example, from 2007 to 2008, China Railway Group Limited and the Democratic Republic of Congo signed a joint development agreement. In the agreement, we agreed to pay the entry fee to the Congo for acquiring the mining rights. However, when the third-country creditor, Congo, knew the agreement, it requested the corporation pay to itself the entry fee to cover the debt owed Congo, not to pay to Congo (Higher People's Court of Guangzhou Research Group, 2014).

The legal risks for enterprises' investment location choices are often made while being unaware of the local investment environment and the subjective estimation of their past or similar experience, ultimately resulting in losses. Such legal risks comes from the host and investor country differences about the benefits, traditional culture, and legislative principles of justice, such as litigation due to labor relations. If the "going out" enterprises are not fully informed in advance, in case of disputes, it will be difficult to obtain relief afterwards. In addition, when the political situation changes in the host country, if the hosts unilaterally change or revoke the content of the signed contract, the state invokes the principle of national doctrine of sovereign immunities; foreign-invested enterprises cannot hold the host country accountable for contractual obligations. This unequal status of the contractual relationship brings huge risks to foreign investors, so it is necessary that we should make regional risks assessment before investing.

During the pre-negotiation process. The mainly legal risks come from the terms of the contract, which can be divided into the risks of the content of the contract and the risks of performance of the contract.

As to the content of the contract, many companies focus only on the substance of the order but do not pay attention to the form of the contract, underestimating their contractual obligations or not fully understanding their legal liabilities during the performance of the contract for infringement of third-party rights. In practice, there are often disputes because of the different views on the rights and obligations in the ill-defined contract. Chinese companies often make a compromise in order to complete the transaction, which leads to many vague definitions of the standard, and eventually they lose an action. In addition, many enterprises seriously lack the awareness of the prevention of risks; for example, many enterprises habitually accept the overall terms of the arbitration clause offered by the other party, which results in an extremely unfavorable position when faced with legal problems. The provisions about the low amount of liquidated damages result in insufficient compensation to cover the losses. When some companies are faced with changes in the law, their response can be adding a "stabilization clause" in the contract, which is also be overlooked.

When referring to the performance of the contract, there are many irregularities of the current Chinese domestic market economy, as it is in its infancy. Enterprises do not perform the contract carefully but interpret the contract flexibly in the grounds of the change of circumstances in order to protect their own interests. However, in foreign countries, especially in developed countries, it's an eternal principle to strictly abide by the contract and respect the validity of the contract, which can be difficult to apply in changing circumstances (Du Xin, 2013).

There are also risks, such as the invalid of the trade protection clause in the merger agreement; a majority of China's M & A are well-intentioned mergers and acquisitions, and, therefore, the agreement does not take effect immediately after it is signed, but first goes to open in the market. If the target company receives a higher acquisition bid from a third party, the original acquiring company may be abandoned, and the transaction costs it has paid are in vain. To reduce this kind of risk, the acquirer is often required to set the trade protection provisions in the merger agreement to prohibit the target company from soliciting bids to a third party. However, such provisions conflict with the goal of maximum interest of the shareholders, thus producing the issue of whether or not the company directors will faithfully fulfill their obligations of the trustee's loyalty. Currently, the guidelines for the review and the result of the trade protection provisions by US courts is a big uncertainty (Higher People's Court of Guangzhou Research Group, 2014).

Mid-term preparations for the implementation of investment projects in the investment process' legal risks. Preparation for the implementation of the investment process is mainly present in the approval and litigation risks of host country government investment projects, such as anti-monopoly reviews, the national security reviews, and intellectual property lawsuits because the entry of foreign companies to a certain extent also threatens the host country's domestic market. Therefore, in order to protect their competitiveness in related industries and safeguard national security and public interests, a growing number of countries have begun to conduct anti-monopoly reviews for multinational corporations. The Chinese common philosophy of "small profits but quick turnover" is likely to be defined as dumping. At present, many countries and regions worldwide have stepped up overseas acquisitions before antitrust merger notification and review procedures. Host countries review of foreign investment in the country's economic lifeline, such as industrial relations in energy and communications, have been very cautious in recent years. Chinese enterprises' overseas investments often face hindrances in national security reviews, such as the 2005 CNOOC bid for Unocal in 2007 and Huawei's acquisition of US 3Com companies, which was hampered by the national security review （Song xue2011). World-famous brand "Coca Cola," "Benz,1" "McDonald's," "Kodak," "Nestle," "Omega," etc., apply for registration in more than 150 countries and have become trademarks. On the other hand, Chinese enterprises have an extremely weak awareness of trademark issues; the country has a large number of well-known brands that have been registered in foreign countries, including the hero card, Red Star, Beijing TongRenTang, and even White Rabbit, to expand the enterprise, which has had a great impact. Many enterprises were outraged when they were sued, but now most countries have adopted a "registered earlier" principle that whoever registered trademarks in the country will have the exclusive right to trademark and be protected by law in the country. They may pay a high price if they are to regain their trademark. However, if they do not regain their brand, they will face the fate of being the alleged infringer or be forced to withdraw from the existing market.

The legal risks during late actual operation of the implementation of investment projects. Late actual operation of the process, the risks of labor laws, environmental laws, and expropriation and nationalization are the three main risks of Chinese enterprises overseas investment operations.

About labor laws, many national labor laws clearly state that foreign companies must hire their own workers, and our so-called "cheap labor" will no longer exist. Many European countries laws state that companies can dismiss employees after obtaining the approval of the union. Some European countries require companies to provide retirement welfare, including pensions and medical welfare, which will have a very large influence on the Chinese enterprises labor costs. Many data show that in recent years Chinese overseas labor disputes and labor budgets don’t have a close relation. In July 2011, the South African textile industry association sued in the labor court to punish the factories that violated workers’ minimum wage regulations. Most Chinese garment factories in Newcastle received huge fines. Due to different national conditions, problems and methods in the process of overseas operations are distinct from those in domestic operations. For Chinese companies, applying internal management often leads to improper handling in collective bargaining, disciplinary measures and working hours. It will not only bring about the risk of legal sanctions, but also cause discontent of local labor, thereby causing host country national resentment for foreign investment enterprises and even home countries. The potential loss will be immeasurable.

About environmental laws, due to our inadequate legal regulation for environmental damage caused by the enterprise management, the environmental awareness and the ability to respond to the crises of Chinese enterprises are very low. In 2009, China invested $ 3.6 billion to build a dam on the Irrawaddy River in northern Burma and construct the Myitsone Hydropower Station. However, in the process of implementation of the project, China was accused of damaging the local ecological environment, and, ultimately, the project was halted (Gu Liang, 2014). So overseas-invested enterprises must seriously deal with local labor rights protection and ecological environmental protection issues.

Labor legal risks and environment legal risks may both lead to host expropriate the enterprise or make the enterprise nationalization. The existing bilateral investment treaties generally provide the host country with being able to meet the public interest, non-discrimination, be in accordance with national legal procedures, and compensation. Under the four aforementioned premises, the host can take expropriation, nationalization or similar measures on foreign investment. However, the definition of indirect expropriation measures lacks clear and consistent rules in the existing bilateral investment treaties, which enables the host country to take acts of indirect expropriation, which brings about great risks for “going out” enterprises.

Ethical Risks for Overseas Investment by Chinese Enterprises

The overseas stakeholders of Chinese multinational enterprises (MNEs) contain the host government, business partners, local employees and communities, and overlooking labor rights and local environmental protection would most likely lead to ethical disputes.

Domestically, some Chinese enterprises do not sign labor contracts with their employees or the contracts are flawed, providing no information about the duration of the employment or the policies concerning injury compensations, and some articles are even against the labor law in terms of wages and benefits. Besides, some companies do not take collective contracts seriously. As a result, the contract can hardly function effectively in improving employer-employee relations due to its hollow content and weak enforcement (Li, 2006).

The above misconduct of Chinese enterprises gives rise to ethical disputes in the overseas market. Some companies have prioritized economic interests by lowering the labor standards or compensation, but they ended up with higher losses considering the complaints, criticisms, and strikes. In addition, the local communities are not satisfied that Chinese companies are used to employing non-technical workers from the domestic market. In a nutshell, Chinese MNEs tend to pay more attention to their relations with the local government instead of residents and communities; thus, sometimes, they neglect necessary communication and information disclosure and depend on temporary measures rather than mechanisms to cope with the environmental and social issues based on the principle of prior informed consent (Wang, Liu, & Zheng, 2014).

Capital export inevitably accompanies pollution transfer, and some large Chinese MNEs have suffered environmental crises in recent years. For example, the China-Russia gas pipeline project was criticized as a threat to world-class relics in 2012, and China Aluminum Corporation’s copper mine project in Peru was suspended by the local authority as a consequence of water pollution in March 2014. As a matter of fact, Chinese MNEs did not work hard enough on local environmental protection and resource conservation. For instance, some companies focused merely on short-term profit and ignored their social responsibility or predatorily exploited local mineral and forest resources, arousing local complaints and anti-Chinese sentiment.

Jiang (2014) classifies corporate socially irresponsible behaviors into deliberate and unintentional ones. The former include unlicensed pollution, manufacture of inferior products, patents infringement, bribe and neglect of tough working conditions, and the latter refer to unexpected events, such as industrial accidents and oil/gas leaks caused by inappropriate measures. Currently, Chinese enterprises invest in construction, mining and chemical industries, which are featured by high risks concerning safe production and environmental protection, and the ignorance of risk management has created many accidents and lawsuits on product quality, patent infringement, and pollution-intensive activities.

Contributors to the Legal and Ethical Risks for Chinese Overseas Investment

Contributors to the Legal Risks for Chinese Overseas Investment

Chinese overseas investment started late, and its relevant legislation lags behind. China has not legislated a unified foreign investment law yet, and there are only several limited departmental rules and regulations, such as "Foreign labor cooperation management regulations" and "The regulations on the administration of foreign contracted project." All these regulations have a narrow coverage and applicable inconvenience, so they cause great inconveniences for Chinese enterprises engaged in overseas investment. At the same time, in the absence of relevant systems and regulations, there always exist funding problems for Chinese companies’ overseas acquisitions. Furthermore, an overseas investment insurance system to protect overseas investment has not been established, which causes great risks for the Chinese overseas investment.

The Chinese foreign investment management system is imperfect and lacks a unified overseas investment management institution; the approval process is cumbersome, as well. The establishment of overseas-funded enterprises, as well as its acquisition of foreign companies must be sent to a number of government departments, which delays the best time for business investment and increases direct risks for foreign investment.

The bilateral treaties signed between China and other countries have defects; all the treaties put more emphasis on providing guarantee for foreign investments' interests, creating a favorable environment to attract foreign investment, but they neglect protection for Chinese overseas investments. The main provisions of the treaties is to provide principled protection, but they lack of specific recognized standards and operating rules, which makes it difficult to find a uniform standard when putting the treaties into practice.

Many enterprises are unfamiliar with international standard systems and international management but have little knowledge of the investment country's laws and market information, which leads to them to apply domestic system and regime investment decisions at the time of overseas investment, thus valuing essence more than procedure at the conclusion of contract. However, due to the differences between law and different nations' legislative and judicial principles, there have been a series of problems when investing abroad in accordance with domestic laws and regulations.

Contributors to the Ethical Risks for Chinese Overseas Investment

Some Chinese MNEs merely struggle for short-run profit maximization or fail to put the notion of green economy into practices. In general, China has not completely gotten rid of the old pattern of economic development at the price of ecological sustainability, and environmental awareness still needs to be heightened. A number of Chinese enterprises still hold the profit-oriented concept and take environment governance as a responsibility of the government and non-profit sector. Under the market economy conditions in particular, quite a few companies give priority to production efficiency and economic performance for their own survival and development while rarely seeking solutions to pollution without outside pressure.

The meaning of corporate social responsibility (CSR) has not been fully understood in China and is often been viewed as synonymous with philanthropy or political requirement, which is contrary to business goals. It is either regarded as a burden or a cost driver, or it is assumed by some small and medium-sized companies that they are not capable of fulfilling their social responsibilities.

Insufficient international experience and lack of the knowledge about local laws, regulations, customs, culture, etc. can possibly lead to CSR failure, even if a specific company is committed to the notion. One lesson that Chinese MNEs have learned is that the support of local non-governmental organizations (NGOs) is essential to the success of their CSR efforts. For example, the labor unions in Latin America play an influential role in shaping employment relations. However, Chinese MNEs did not excel in negotiating with those organizations and sometimes made it a bottleneck for the local business.

Chinese enterprises commonly hold that it is wrong to wash their dirty linen in public, which leads to their lack of CSR communication. For instance, when the Peruvian iron and steel company went on strike, no voice was heard from the Chinese company, but, instead, the voices of the local labor union, workers, NGOs, and politicians were heard (Zhong & Yang, 2007). This kind of passive response often makes Chinese enterprises lose their power in influencing the public opinion, as well as the judgement of the local government, congress, and judicial department.

The Chinese market mechanism is not fully developed and the CSR standard is virtually a matter of contention. Under such circumstances, some companies compete in unethical ways without taking into account the social impact. As China has just stepped into the transformative period toward intensive development, companies still lack environmental awareness, causing a lot of conflicts between economic growth and ecological sustainability.

China's FDI is often labeled as "China threat," and "neocolonialism" by foreign media, and the low-price strategy is sometimes viewed as dumping. The local people are more or less influenced by those biased reports and press the government to forbid Chinese projects in the name of environmental protection or resource conservation. Additionally, Chinese MNEs' inadequate efforts to maintain positive public relations further increases their investment risks. Due to historical issues, anti-China sentiment still prevails in Southeast Asian countries, like Indonesia (Li, 2014).

CSR practices are deterred by the current social mechanism in China, and both the legal system and corporate system need improvement. Chinese CSR-related laws and regulations contain no specific definitions or penalties for socially irresponsible behavior yet, and many MNEs have not developed an effective self-regulatory or supervisory system to provide guarantees for labor rights and productive safety in host countries.

Chinese MNEs have not succeeded in crafting and implementing localization strategies in less developed countries. Since the local educational level is relatively low, Chinese MNEs always transfer their personnel and their management model without customization, resulting in deficient interaction with local society, not to mention strategic localization. Furthermore, there exists information asymmetry between the local government and local employee, communities, and labor unions due to Chinese MNEs' overwhelming cooperation with the former.

Suggestions on Legal and Ethical Risk Management in Overseas Investment

Legal Risk Prevention for Chinese Investors

For legal risks faced by Chinese enterprises to invest overseas, many scholars and professionals put forward corresponding countermeasures. Foreign-invested enterprises should fully understand the host country's labor laws to avoid possible risks. Tian Xiaohua (2014) suggested that the Chinese enterprises should be prudent in calculation of labor costs and set aside enough money to cover possible labor disputes. As the subject of overseas investment, Chinese enterprises should seriously study the host country's labor hiring requirements, calculate labor costs, especially for the provisions the state can only be used for the countries which provide domestic labor only, in order to avoid unnecessary labor disputes that may affect investments. Chinese enterprises should strictly obey relevant laws of the host country, the employment contracts, and internal regulations when hiring and managing employees, sign labor contracts, promote the development of enterprises, and pay attention to safeguarding the legitimate rights and interests of employees at the same time. At the same time, Chinese enterprises should keep written materials and records as evidence related to labor management for future labor disputes in order to grasp the initiative in resolving the disputes. Also, actively and properly handling the relationship with labor unions, effectively using relevant laws of the host country when bargaining with trade unions, coordinating the common goals of the company and labor union under the principle of maintaining their own interests, and reaching agreement with the unions on labor matters as soon as possible. Furthermore, companies should enhance operations through active consultations with labor unions, resolving labor conflicts and strikes, carrying out emergency plans when encountering illegal strikes, and timely communications with the relevant government departments to obtain the support of the host government.

Investors should be aware of the local laws on foreign investors' market access mechanisms and resource investment restrictions on investment income tax laws. Meeting with countries whose legal system is not very transparent will cause difficulties for Chinese overseas investors. At this time, we should give full cooperation with local law firms, governments and people, and it is better not to rush into the market.

Chinese enterprises should change their ideas about valuing essence more than procedure when concluding a contract. We should attach great importance to the dispute resolution provisions when concluding a contract. We must carry out the contract with the substantive provisions of serious negotiations and have a prudent attitude towards the dispute-resolution provisions of the negotiations, not remaining unprincipled when accommodating each other in order to facilitate transactions and dispute-resolution issues. Chinese enterprises in the overseas investment process should not only pay attention to their risk of default but should pay attention to liability for breach of contract that may arise. The most common issue is that one party obviously suffered a loss of interest in the actual case, but it cannot be calculated in this case, so the relevant companies must bear the burden of proving, otherwise and bear the consequences (Du Xin, 2013).

We must strengthen the Chinese overseas investment legal system's construction and improvement, and legislate the basic law on foreign investment as soon as possible. Foreign investment law should serve as the basic law to encourage, protect, and regulate Chinese overseas investment, clearly define rights and obligations of government management authority and investors on cross-border investment, and suggest the stimulus or restrictive measures to be taken against cross-border investment. On this basis, to sum up our experience, we need to legislate foreign investment law implementing rules step by step and improve the legal system of China's overseas direct investment. According to their national conditions, phasing out unreasonable restrictions, providing legal support for taxation and finance for cross-border investment enterprises.

Establish an effective regulatory regime of foreign investment. In accordance with the reality of our country, establish a unified foreign direct investment management agency in charge of the Ministry of Commerce that can formulate the Guiding Catalogue of Foreign Investment Industries and the harmonization of approval procedures and standards, coordinate cross-border investment activity from a macroscopic view. In managing, the agency should regulate and control industrial layout and investment structure mainly by legal and economic means, and it should not be involved in micro-management. On the approval system, in addition to those related to China's economic development strategy and energy investment, which will be jointly approved by the NDRC and the Ministry of Commerce, all other cross-border investment projects should be approved by the foreign direct investment managers. This is to prevent the approval process being subjective and arbitrary and can avoid investment risks and optimize the investment structure.

Establish foreign investment insurance system. Foreign investment insurance is a mechanism that the government of capital-exporting country provides a guarantee for foreign investors when they may encounter political risks or from venture capitalists or use their insurance institutions to apply for the insurance if the occurrence of political risk coverage to investors is damaged, insurance agencies should be compensated. This system is currently widely used in developed countries; it has become an important mechanism for capital exporting countries to protect and encourage cross-border investment. China should also establish an overseas investment insurance system with Chinese characteristics to provide insurance for Chinese enterprises when they may be subject to nationalization, expropriation, currency exchange restrictions, import restrictions, and other political risk insurance in foreign countries.

Improve the risk prevention mechanism. For today's increasingly complex investment environment abroad, the idea of legal risks prevention should be remedied to advance prevention and overall control. Our government should form specialized research institutions devoted to research on overseas investment risks, study in depth the legal environment of foreign investment, analyze investment opportunities and risks that may be encountered by our country’s overseas investment enterprises from a technical perspective, and strive to complete the work of identifying and assessing legal risks and prevention control.

Establish a direct investment information service system. China's relevant departments should set up specialized information services institutions, build a new network of overseas investment information services network providing information including the host country’s political, economic, marketing, legal, cultural, and other aspects, and provide professional advice to investment companies before investing, to make sure that they are fully prepared. At the same time, it also should set up a special agency responsible for the overall investment environment, provide basic information of overseas investment environment, and promote services such as introductions to potential partners, cooperation projects, and so on (Liu Lei, Li Na, 2014).

On the international level, Dong Haihua (2014) suggests that the Chinese government should always adhere to the principles of mutual benefit and win-win compromise, and the combination of flexibility principle, accelerate the negotiation and conclusion process of bilateral or multilateral investment protection treaties with other countries. She also recommends that the Ministry of Commerce fully listen to the interests and demands of domestic investors. Businesses can also draw up a folk version on investment protection treaty as a reference for the government when negotiating. The government should help the "going out" enterprises to avoid possible risks from a legislative point of view.

Ethical Risk Prevention for Chinese Investors

Chinese MNEs must realize the strategic importance of internationalization of their workforce, production, distribution, and research and development. They need to employ local workers, leverage local resources, understand and respect local laws and culture, which will help strengthen the tie with host countries and be conducive to raising the level of globalization. Specifically, Chinese MNEs should attach more importance to employer-employee relations, cultural adaptation, environmental protection, etc. On the one hand, it is necessary to prevent risk by communicating with local NGOs and opinion leaders. On the other hand, Chinese MNEs ought to actively fulfill their social obligations and contribute resources to the local communities so that they can improve a responsible image, strengthen their accountability, and realize inclusive local development.

Chinese MNEs should commit to environmental protection and take actions, such as establishing a mechanism for CSR communication with local governments, NGOs, and communities, releasing environmental information, getting engaged in philanthropic activities, etc. In this way, Chinese MNEs could deliver timely and effective responses to environmental issues, demonstrate their commitment to CSR, and lower the risk caused by information asymmetry, all of which are beneficial to developing core competence.

Chinese MNEs should fully understand and obey the local laws and regulations on environmental protection, improve the waste management capability, and meet related requirements. In case the host country sets a very low or no standard, companies should behave on the basis of domestic or internationally accepted standards and principles, which has proven to be an effective way of strengthening legitimacy.

According to China’s 12th Five-year Plan, Chinese enterprises are encouraged to go global in a more responsible way and to benefit the local people, indicating that China’s investment strategy prioritizes green development and shared value creation. To realize these goals, a widely covered CSR evaluation system should be developed to guide green business. In addition, the government should strengthen environmental supervision and green infrastructure construction, empower the supervision, inspection and law enforcement agencies, and raise the standards of product quality, environmental protection, and other business conduct. What’s more, CSR institutions that meet both domestic and international requirements are badly needed to shape Chinese enterprises' ethical behaviors and further help prevent overseas investment risk, such as by exerting the influence of consumers, media, labor unions, and other organizations.

The industrial associations should promote international cooperation and exercise their bridging role, such as to timely inform the enterprises of relevant laws, regulations, and policies on environmental protection, integrate industrial information and compile a customized FDI guide, cooperate with governmental organizations to provide compulsory training programs for persons in charge of foreign investment to help them get familiar with international conventions and legislations and raise their awareness of environmental responsibility.

Conclusion

In the era of economic globalization, China's foreign investment is characterized by diversified investors, worldwide coverage, and various industries. Meanwhile, Chinese enterprises have encountered a lot of problems pertaining to legal and ethical issues overseas. In addition to the complexity and distinctiveness of foreign investment climate, contributors to relevant risks include China's lack of legal protection of investors and their lack of awareness and capabilities of risk management. Given this situation, we suggest that the Chinese government and the enterprises join hands to cope with not only the operational risks but also legal and ethical ones. On the one hand, the Chinese government should enhance mutual trust at international level by signing bilateral investment treaties and improve domestic legal institutions and insurance systems to raise the awareness of ethical responsibility. On the other hand, Chinese enterprises should heighten their social consciousness and make efforts in risk identification and prevention to create win-win situations in the host countries. In general, the world is at a pivotal moment for inclusive development. Though law plays a norming role, ethics lead the way in creating shared value. Thus, combination of the two appears to be imperative, considering the imperfection of current legal institutions.

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Globethics.net is a global network of persons and institutions interested in various fields of applied ethics. It offers access to a large number of resources on ethics, especially through its leading global digital ethics library. In addition, it facilitates collaborative web-based research, conferences, online publishing and active sharing of information. Globethics.net aims especially at increasing access to ethics perspectives from Africa, Latin America and Asia. It strengthens global common values and respect of ethical contextual diversity.

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