

## CIBE FIE research

### Preliminary Results

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## Executive Summary

Foreign-invested Enterprises (FIEs) have been playing an important role in the fast developing Chinese economy, but there is a growing demand to improve the awareness and effective communication between responsible FIEs and stakeholders in China. On the one hand, FIEs' stakeholders in China need ready access to relevant information to judge the social performance of individual FIEs in China; on the other, FIEs need additional insight into Chinese stakeholder concerns and expectations in order to better localize their CSR strategies and improve the impact and visibility of their CSR programs. The project of *“Foreign-invested Enterprise CSR Performance Assessment”* was launched and implemented with such understanding and aiming to find a holistic solution to this dilemma and bridge the gap between FIEs and stakeholders.

With such objectives in mind, researchers from the Center for International Business Ethics (CIBE) have adopted various research methodologies, incl. literature review, focus groups and case studies, referencing international standards, laws and regulations, to construct and test the theoretical model to assess the CSR performance of FIEs. With the model at hand, surveys (interviews and on-line questionnaires) have been conducted to verify the feasibility and practicability of such model.

With the data from the initial 47 interviews and subsequent analysis, certain tendencies have emerged, with differences in terms of industry, nationality, etc., that represent varied understandings of FIE representatives in definition of CSR, list of important stakeholders, CSR policies, obstacles, main driving forces, etc.(referencing Part 4, details in Part 3) The preliminary results highlighted the fact of the complexity of this issue, for FIEs in China, due to industrial differences, variant development stages of the company and the in-mature market environment; on the other hand, this also underlines the importance of a shared consensus on what is and how to implement and evaluate CSR.

Those having enjoyed robust growth in China are struggling to seek operative criteria to communicate with their stakeholders, and manageable tools to integrate CSR principles into business operations and meet the challenges of sustainable development in Chinese market; and those “on-lookers” are closely monitoring the behaviors of the forerunners.

We are still too juvenile to be content, and too large to fail!

## 1. Introduction

### *a. Foreign-invested Enterprise (FIE) CSR Performance Assessment Project*

The Foreign-invested Enterprise CSR Performance Assessment Project, initiated and implemented by the Center for International Business Ethics (CIBE) proposes to develop the first comprehensive stakeholder-based CSR assessment model specifically for FIEs (representative offices, Equity Joint Ventures, Cooperative Joint Ventures, Wholly Owned Foreign Enterprises and companies limited by shares) in China, to enable FIEs to effectively evaluate the degree by which stakeholder concerns are reflected and integrated into their business strategy.

The project is structured around insights into stakeholder theory, a management theory which views business as a set of interwoven relationships among groups that either affect or are affected by the activities of that business. From the perspective of stakeholder theory, a business is considered successful only insofar as it can effectively balance and generate value for its stakeholders.

An additional application of the research will be to provide Chinese stakeholders, chiefly the government and NGOs, a clearer awareness and basis on which they themselves can judge the social performance of individual FIEs in China; and foreign direct investment overall. This would constitute a major contribution and an essential component to debate on sustainable growth in China, and help in setting the agenda for policy-making with regards to FDI.

Following the growing discourse on the role of FDI in China, this research is premised on the belief that the main obstacle in achieving successful stakeholder management for FIEs in China is the lack of suitable information on stakeholders concerns, and the absence of a clear framework from which management staff can practically approach stakeholders. A key task of this project therefore is to identify the key Chinese stakeholders; their values; the power, legitimacy and urgency of their claims; FIE responsibilities, opportunities and challenges; and effective strategies to measure and manage these responsibilities.

The project, a Stakeholder Model for CSR assessment system of FIEs in China aims to deliver:

- 1) *A significant body of research and contribution to scholarly understanding on stakeholder values in China. Findings will be*

*published in Chinese and English language academic papers, made available for civil society and governmental organizations to support research and decision-making.*

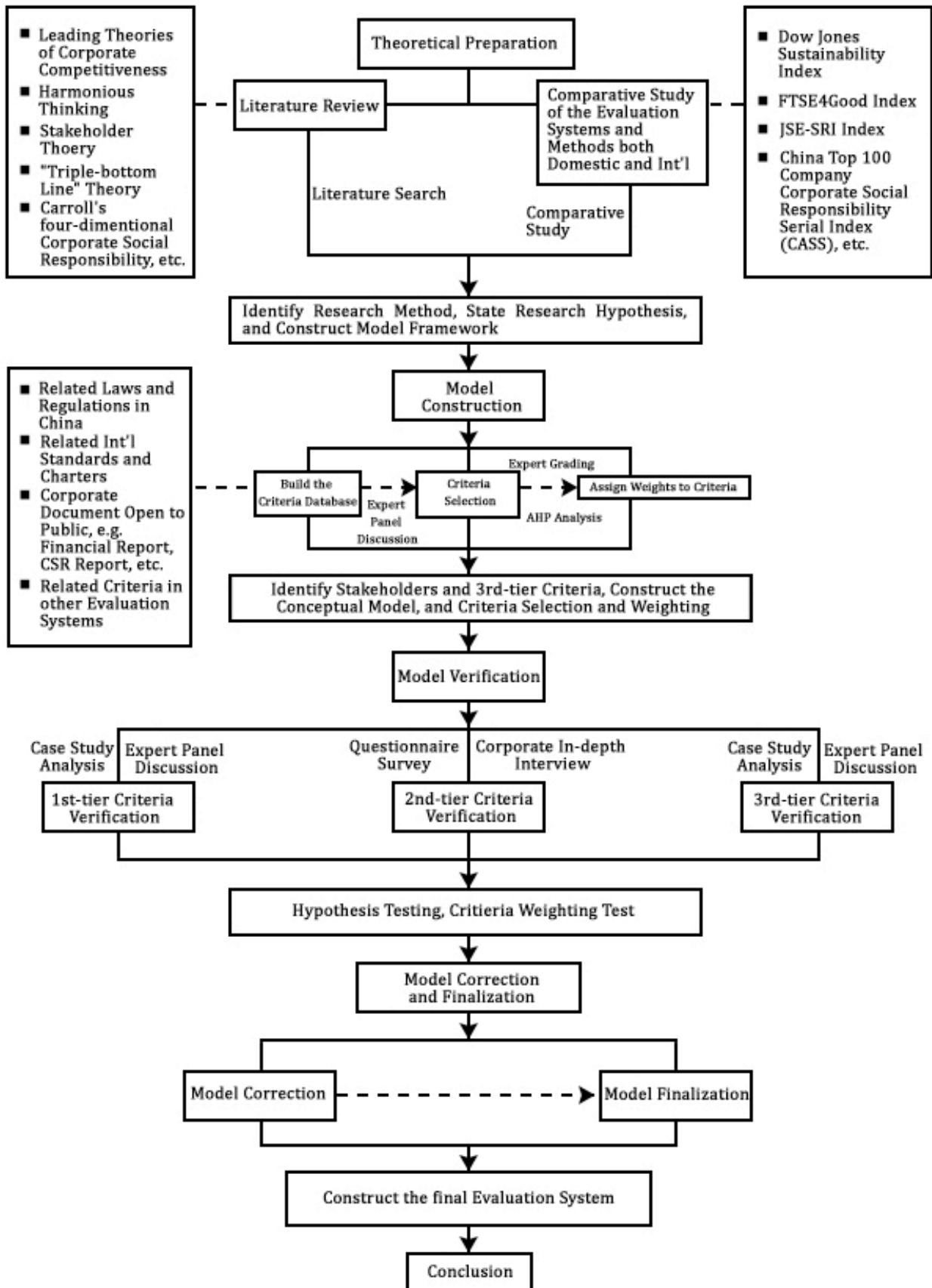
- 2) The establishment of a feasible Stakeholder CSR assessment tool to help FIEs manage their CSR programs in China, to measure and improve corporate social performance with respect to Chinese stakeholders. This tool will primarily take the form of a book containing guidelines for managers in FIEs.*
- 3) Annual Report on the corporate social performance of FIEs in China broken down by industry.*

The CSR assessment model constructed will be the first of its kind based on stakeholder theory for FIEs in the Chinese context. It will provide manageable operative criteria for FIEs who are struggling to counter corruption and are seeking sustainable business development in China and other areas.

#### ***b. Foreign-invested Enterprise Interviews***

The project employs various research methodologies including a literature review, business and stakeholder surveys, management and stakeholder focus groups, business case studies and expert consultations (as shown in the following graph).

The surveys have been divided in two main streams of analysis: online collection of data through a questionnaire and interviews to a representative sample. We will hereby present the preliminary results from the first round of interviews, which have been realized throughout July and August 2011.

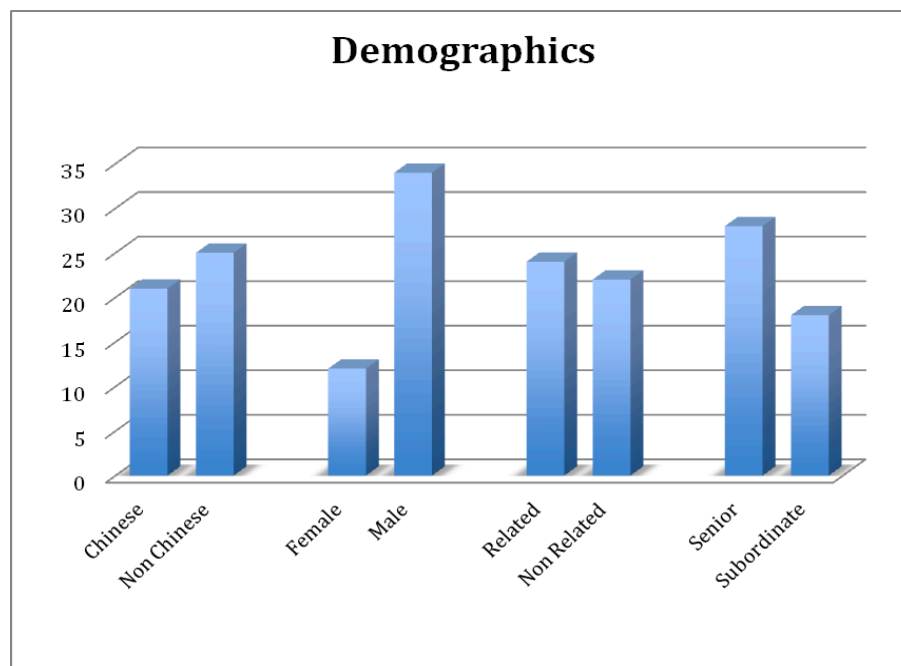


## 2. Data Set description

Interviewees in the data set have been mainly contacted through social networks and web-forums. Most of them belong to “sustainability” related online communities, which might create some biases but has been a way to guarantee a higher rate of response and some familiarity with CSR lexicon and commonly accepted practices. We have categorized respondents according to four parameters:

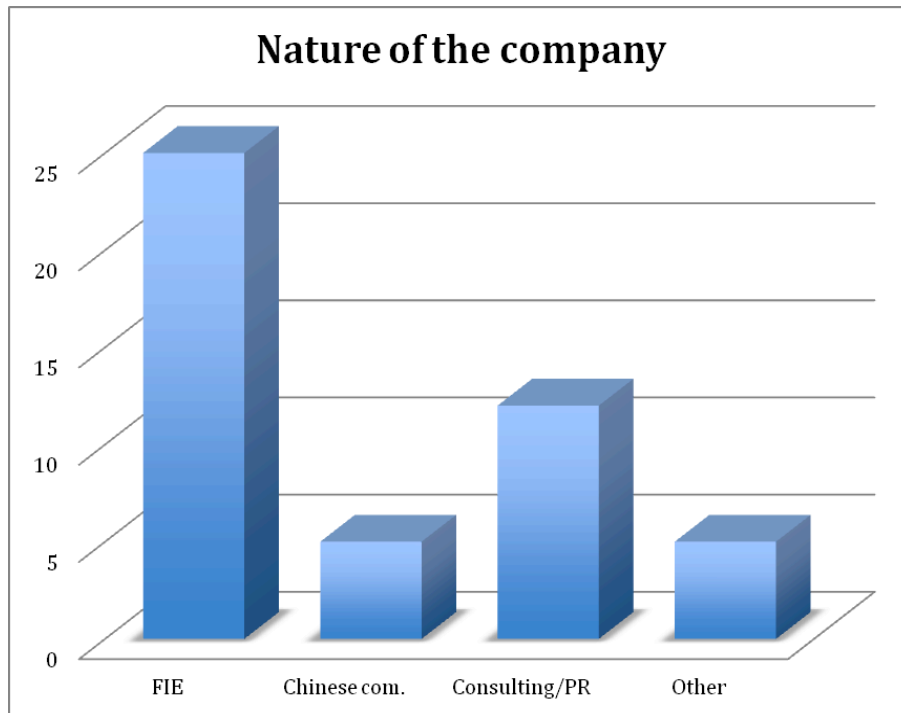
- Nationality
- Gender
- Relatedness of the profession to sustainability
- Degree of seniority within the company

The outcome has been a quite homogeneous sample with answers distributed approximately half and half in each of the categories. The only exception concerns “gender”, which confronts 13 females with 34 males, but is nevertheless acceptable.



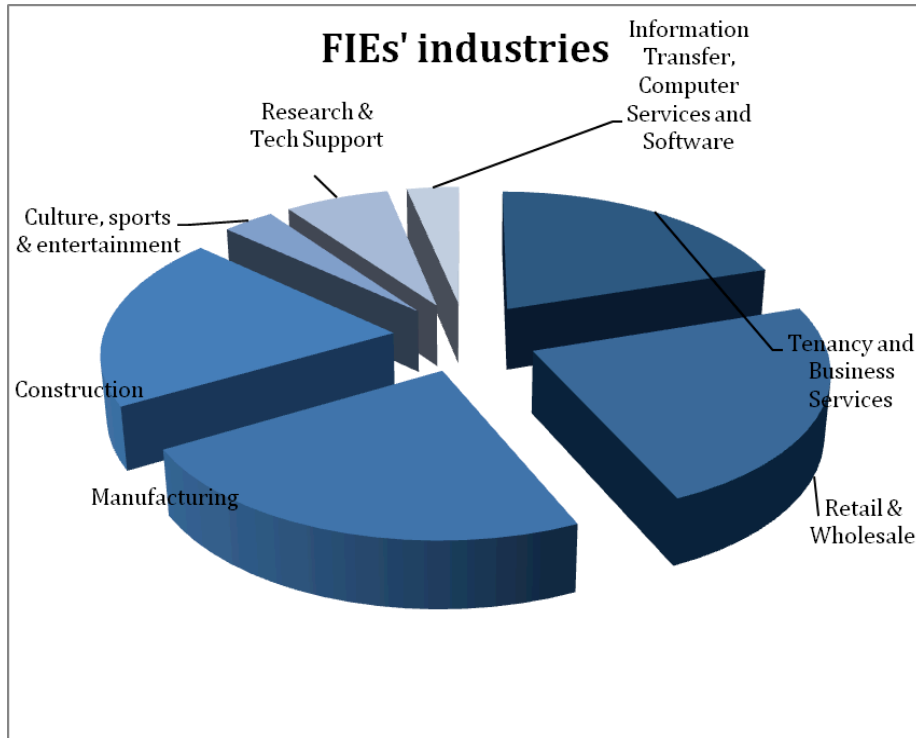
Although primarily focused on Foreign-invested enterprises, we have also interviewed people from Chinese companies and the “third sector” (Other) as a benchmark and comparison term for our research. We have decided to consider consultants and Public Relations firms as a stand-alone group due to their involvement with the business operations of foreign as well as Chinese enterprises

varied in scope and size, and thus better position in depicting a broad figure, rather than situation specific comments. FIEs accounts for roughly a half of the whole data set (25), being followed by 12 consulting and PR firms and an equal number (5) of Chinese companies and other institutions or social enterprises.



In order to deepen the significance of the data we have insisted on the breakdown of FIEs and Chinese companies according to their industry. We have referred to the classification of the Chinese National Bureau of Statistics (NBS), but it has been sometimes hard to make decisions on the most proper allocation since many of the bigger ones are involved at more levels (e.g. Manufacturing and Retail), so that boundaries are often blurry. “Retail and Wholesale” and “Manufacturing” have been the most represented categories with 7 respondents, we have then had 6 interviewees in “Tenancy and Business Services” and “Construction”, 2 for “Research & Technological Support” industries and 1 in “Information Transfer, Computer Services and Software” and “Culture, sports & entertainment”.





### 3. Inferences from the interviews

The broad spectrum covered by the data set did not allow us to collect easily comparable information from respondents. Interviews are, in fact, intended as a mean through which we will add value to the standardized answers to the online questionnaire that will conduct us to scientific assessments.

Nevertheless we have maintained a line of questions enabling some key variables to emerge. We have organized the gathered evidence along 11 criteria and 4 sub-criteria concerning policies implemented at the interviewee's company.

- CSR definition
- CSR department
- CSR instigator
- Most important Stakeholder (personal opinion)
- Most important Stakeholder (company)
- CSR policies at com.
  - *yes/no*
  - *Recipient*
  - *Codification*
  - *Needed improvement*
- Regulations
- Customer sensitivity
- Obstacles to CSR
- Most critical issue
- Main actor in improvement process
- Main driver for improvement

The upper part of the criteria mainly relates to general assessments about respondents' understanding of Corporate Social Responsibility and its place within the company in ideal terms. We then pass to their personal work experience and conclude with China specific considerations. Particular importance has been given to the level of satisfaction with actual regulatory action from governmental side, Chinese customer's behaviors, observed obstacles to CSR development in China, who should be the main actor in the improvement process and what could be the most effective driver to that end.

Once again it has to be recalled some bias might have been caused by the discretionary interpretation by the interviewees, so that the

results are simply indicative of people's attitudes rather than soundly prove their beliefs.

We will now present four breakdowns of the results according to the nature of the company first and demographics, with the exclusion of gender, later.

### *a. Nature of company*

#### ▪ *CSR definition*

There is substantial agreement around CSR being pervasive to all company's operations with the sole exception of construction industry, where it has still been linked to "basic compliance" with laws in 2 cases out of 6, and to "unrelated" with the core activity of the business in 1.

#### ▪ *CSR department*

Opinions regarding the necessity of establishing a CSR department in the company are rather varied. Interestingly enough nobody in the "Other" group views it as necessary, and few openings to the issue come from construction industry again. The majority of respondents have immediately addressed the organizational effort required by the addition of any unit to the business, regardless of its task, thus basing their answers on case and especially size basis. A break can be observed in the "Tenancy and Business Services" industry, where both the Chinese companies' interviewees support the need for some steering function to guide and monitor social performance of a company, whereas the FIEs' ones feel it as unnecessary in 2 cases and size dependent in another.

#### ▪ *CSR instigator*

The Chinese companies', "Consulting and PR firms" and "Other" groups leave few ground for other instigators of socially responsible behavior but the Leadership. The half respondents from the "Retail" category, instead, seem to highly value the existence of a CSR department as promoter and steering center for actions in the sustainability area. In few instances, particularly by "International Business Services" firms, a compliance manager has also been indicated as the one who should lead the organization towards the endorsement of best practices.

- *Most important Stakeholder (personal opinion)*

As for the personal opinion of people on who should be the most important stakeholder companies should satisfy, the majority is split into “Owners” and “Depends”. None of the interviewees from “Chinese companies”, though, indicated the shareholders as the first to be satisfied, whereas those working for “FIEs” did it in more than half cases. “Clients” also attracted a good number of votes, particularly in the “Manufacturing” industry.

- *Most important Stakeholder (company)*

When coming to the most important stakeholder for the company, answers are again split into two subsets. “Owners” were mentioned by all “FIEs” in construction industry, while “Clients” votes are more concentrated in the “Manufacturing” and, of course, in ‘Consulting’ firms.

- *CSR policies of the company.*

CSR policies have become an integral part of companies’ policies definition in most of the businesses operating in China. Negative answers to the question about their existence or not at the firm for which they work are concentrated among those people working in ‘Construction’ industry. More than a few denials come from the side of consultants as well, whereas the only ‘no’ in ‘Manufacturing’ industry comes from a Chinese company. ‘Employees’ emerge as the category benefiting the most, followed by ‘Environment’ and ‘Suppliers’. ‘Competitors’ have been never mentioned, while the ‘Government’ was taken into consideration only twice. There is a substantial difference in between ‘Chinese companies’ respondents and ‘FIEs’, in that the latter often have policies towards more than a single stakeholder, while the former exceeded the number of 1 in only one case. Lastly it is worth nothing, it has become a generally accepted practice that of writing CSR measures in proper codes.

- *Regulations*

The overwhelming majority of respondents cited the problem of regulatory interpretation and, overall, ‘implementation’. Very few people working for ‘FIEs’ consider them insufficient, while approximately half of the consultants and 3 out of 5 belonging to ‘Other’ category do.

- *Customer sensitivity*

Customer sensitivity to sustainability issues is still considered poor by the gran part of respondents both in 'FIEs', 'Chinese' and 'Consulting' firms. Nevertheless, 4 out of 6 answers from 'Manufacturing' indicated it as rising and the majority of 'Other' agrees on this point.

- *Obstacles to CSR*

We have allowed more than one answer to the question about which is considered as the biggest obstacle to CSR rise in China. Many interviewees, especially in the 'Construction' industry, pointed out to a so labeled "non-ethicity" of Chinese businessmen, who would always prioritize short-term profits and less praiseworthy practices to get there if needed. Interestingly enough this has been also pointed out by 'Chinese companies' professionals themselves. Those working in 'Business Services' are the ones who feel this among the most problematic obstacles to overcome. Almost everybody referred to a matter of 'Awareness', rather than deeper cultural issues and from this derived the need for better education and sensitization at all levels. Another important emerged issue is, understandably, that of 'competition', on which 'Manufacturing' professionals and 'Consultants' paid the greatest attention. 'Lack of competencies', instead, has been mentioned repeatedly by 'Other's that have to collaborate with the private sector on three-pronged programs.

- *Most critical issue*

Whereas almost everybody, but 2 people working in 'Business Services' and 2 from 'Other', have been quite positive about the change in motion considering environmental issues, while 'worker rights' have been identified as the most critical, often unaddressed, matter by companies and government alike. 'Transparency' has also attracted few mentions from people belonging to 'Retail' and, especially 'Consultant firms'. Apparently 'quality standards' are not perceived among the top priorities calling for improvement.

- *Main actor in improvement process*

There is a definite propensity from 'Consultant's and 'Other's to consider the combined action of foreign and Chinese companies, Government and Third Sector to help change towards more sustainable practices conducive to a balanced growth in a systemic way. This opinion is also the most represented among 'FIEs'

respondents, although many interviewees, especially in 'Construction' industry called for the need of strong action from the 'Government'. 8 interviewees, 3 of which from 'Manufacturing' has indicated 'FIEs' as main drivers of change, while not many less (6) has given to 'Chinese actors' this responsibility.

- *Main driver for improvement*

Concerning the reasons that will reinforce companies to become "more responsible" in the future, 'Efficiency' has been mentioned in most cases with the sole exception of 'Business Services', that are more inclined to believe it will be the desire to improve image in the eyes of consumers. 'Image' has also been pointed out consistently by the 'Other' and 'Consultant's groups, whereas in the 'FIE's dataset and in the 'Chinese companies' it appears at the same level as 'International Exposure' considerations, and it has never been considered by people working in 'Construction'. 'Risk control' is the variable having attracted the least attention, with the grand part of mentions coming from the 'Consultant's side and none from 'Chinese Companies'.

## ***b. Nationality***

- *CSR definition*

There is substantial agreement on the definition of CSR as a pervasive concept to all companies' operations. Nevertheless, 3 respondents out of 21 from the 'Chinese' group and 2 out of 25 from the 'Non Chinese' have given the unrelated one. 'Basic Compliance' was only mentioned in two instances by foreign interviewees.

- *CSR department*

There is a marked distinction in between the two groups as long as the necessity for a CSR department is concerned. Only one of the 'Non Chinese' respondents has indicated it as necessary, whereas 11 of the 'Chinese' did. Foreign interviewees have brought forward more often size considerations, which are not too popular among 'Chinese' ones, if not directly the lack of necessity.

- *CSR instigator*

A higher need for rules and codification from 'Chinese' respondents also emerges concerning the CSR instigator. Although even in their group 'Leadership' has casted the majority of mentions, 'CSR

department' and 'Compliance Manger' follow suit with 7 and 3, differently from the 'Non Chinese' interviewees who talked about them in 2 and 1 case respectively adding the 'HR department' option twice.

- *Most important Stakeholder (personal opinion)*

Needs of 'Owners' do not appear among the felt priorities by 'Chinese' interviewees, while the 'Non Chinese' majoritarian view considers them as the most important to satisfy. 'Chinese' respondents have mentioned more often 'Employees', who have been cited only twice by the foreign group, and 'Community', which has never been. 'Clients' appear more relevant to 'Non Chinese' and the same is true concerning 'Environment', although only 2 people has taken it as utmost important. 'Depends' has also been included among the options, in which case answers do not appear influenced by nationality.

- *Most important Stakeholder (company)*

Most of the 'Non Chinese' respondents attributed to their company the priority given to 'Owners', immediately followed by 'Clients'. 'Clients' have been the preferred one from 'Chinese' respondents as well, whereas other stakeholders have been cited in few instances with no significant difference.

- *CSR policies of the company.*

Apparently most of 'Non Chinese' respondents work for companies who do not implement CSR policies, whereas the big majority of 'Chinese' interviewees' employers do.

- *Regulations*

Opinions about regulations have been homogeneously addressed around the issue of 'Problem implementation', with no paths emerging in the case of 'weak', which has been attributed by 6 'Chinese' and 8 'Non Chinese' respondents.

- *Customer sensitivity*

Considerations about Chinese customers' sensitivity to sustainability issues at the act of purchase are once again homogeneously distributed in the groups, with 'Poor' coming first followed by 'rising'.



- *Obstacles to CSR*

While, unexpectedly, both ‘Chinese’ and ‘Non Chinese’ respondents have mentioned a supposed ‘Non ethnicity’ of Chinese people among the major resistances to the development of CSR practices in China, ‘Lack of Competencies’ is definitely biased on the ‘Chinese’ interviewees’ side, while foreigners feel other obstacles, such as ‘Traditionalism’ and reluctance to change as more relevant.

- *Most critical issue*

‘Environment’ has been never considered as the most critical issues by ‘Chinese’ respondents, while they seem to consider ‘Quality standards’ as something more stringent nowadays, besides the crucial point of ‘worker rights’ addressed by the grand part of interviewees.

- *Main actor in improvement process*

Here, concerning who the main actor in the improvement process should be, opinions mirror each other. ‘Chinese’ respondents propend for ‘FIEs’, whereas ‘Non Chinese’ attribute the responsibility first of all to the ‘Government’. Anyway it should be noted most of interviewees consider a systemic action of the three sectors necessary to provide a balanced environment.

- *Main driver for improvement*

While no significant differences emerge looking at ‘International exposure’ and ‘Image’ variables, answers in the direction of ‘Risk control’ and ‘Efficiency’ are strongly nationality related. ‘Chinese’ respondents do not appear particularly convinced about the fact behaving in a more responsible way will benefit companies in terms of ‘efficiency’, while they tend to stress more the necessity to control ‘risks’ from operations in terms of credibility and sanctions.

### ***c. Relatedness of the profession***

- *CSR definition*

As could be easily expected the few definitions of CSR as non-strategic have come from the ‘Unrelated’ professionals group, a part from two cases in the ‘Related’.



- *CSR department*

Opinions about the necessity of a CSR department are quite homogeneously distributed in the two groups with regard to 'size dependent' and 'unnecessary' variables, although, self understandably, more people in the 'Related' group have opted for the 'necessary' alternative.

- *CSR instigator*

As far as the identification of the one who should be the main instigator of socially responsible behaviors in the company is concerned, the few divergent cases from 'Leadership' mainly belong to the 'Related' group and are concentrated between 'CSR department' and 'Compliance manager'. The two cases mentioning the 'HR' pertain to the 'Unrelated' group.

- *Most important Stakeholder (personal opinion)*

Interviewees from the 'Unrelated' group mainly cited 'Owners' and 'Clients' as most important stakeholders in their personal view. Professionals of the sector, instead, have more often answered 'Depends' and are among the only in the dataset referring to 'Community' in 3 cases.

- *Most important Stakeholder (company)*

The 'Unrelated' respondents' companies mainly consider either 'Owners' or 'Clients' as most important stakeholders, whereas the 'Related' group has given more varied answers. 'Clients' are still the majority, but a significant proportion of mentions have been addressed to 'Employees' as well, and 'Community,' Environment' and 'Suppliers' few cases belong again to this group. The only mention to the 'Government', on the other hand, has come from the 'Unrelated' professionals.

- *CSR policies of the company.*

Only one of the interviewees belonging to the 'Related' group, where applicable, has referred not to implement CSR policies at his company, and almost all of them address them towards 'Employees', immediately followed by 'Environment'.

- *Regulations*

No significant evidence emerges from the comparison of opinions about the degree of regulatory efficacy.

- *Customer sensitivity*

Also in the case of customer sensitivity, paths identification is not utmost relevant. There is, nevertheless a slightly higher proportion of respondents in the 'Related' group who have portrayed it as 'rising'.

- *Obstacles to CSR*

Concerning obstacles to CSR development in China, the high attention given to 'Lack of competencies' coming from the 'Related' group appears at first sight. As far as the other variables are concerned, instead, data are quite homogeneous, with a split in between 'Non-ethicity', to a lesser extent in the 'Related' group, 'Awareness' and 'Competition'.

- *Most critical issue*

A part from the opinion of the majority seeing 'worker rights' as a urgent matter far from reaching compliance with international levels, 'Transparency' has been indicated by most of 'Unrelated' professionals as a critical issues, whereas people belonging to the 'Related' group view it as problematic as the existence of lower 'Quality standards'.

- *Main actor in improvement process*

While most of answers identifying 'FIEs' as the one who should be the main actor in fostering improvements in the sustainability area come from 'Related' professionals, the grand part of 'Unrelated' ones have mentioned the 'Government'. A higher proportion of them have even attributed the responsibility to 'Chinese Actors', whereas 'Related' seem to prefer the benefits arising from systemic action.

- *Main driver for improvement*

The sole big difference emerging from the interviews as for what should be the reason pushing companies to raise their attention towards CSR in China, concerns 'Risk control', which seems to be a prerogative of the 'Related' group.

#### *d. Degree of seniority*

- *CSR definition*

The 'Subordinate' professionals group appears more aligned in defining CSR as pervasive to companies' affairs with a single case of divergence from the standard definition.

- *CSR department*

Looking at figures concerning the necessity of a CSR department it is striking noticing how almost all of the answers saying it is 'Unnecessary' have come from the 'Senior' group, whereas 'Subordinate's are much more open to the issue and, at most, subject it to size constraints.

- *CSR instigator*

The 'Subordinate' interviewees group is less aligned with the 'Leadership' as main instigator of socially responsible behaviors' opinion pertaining to the grand majority of 'Senior's. In their group some mentions have been casted by 'CSR department,' HR' and 'compliance manager' as well, in a far higher proportioned compared to the respective ones by the 'Senior' group.

- *Most important Stakeholder (personal opinion)*

The distribution of data concerning personal views about who the most important shareholders should be are homogeneous within the two groups, with a slightly higher proportion of interviewees from 'Senior' group, who have indicated the 'Owners'.

- *Most important Stakeholder (company)*

Once again few path dependencies evidence emerges from the evaluation of answers about the most important stakeholder for the interviewees' companies. Nevertheless the 'Senior' group, even due to its bigger size, appears more varied.

- *CSR policies of the company*

In comparison to 'Senior' group, fewer interviewees from 'Subordinate' group are employed by companies who do not implement CSR policies.

- *Regulations*

There is a quasi-unanimity in the 'Subordinate' group concerning Chinese regulations and their 'problem of implementation', whereas many 'Senior' figures consider them utterly inadequate to properly help the development of an environment that would reinforce positive behaviors and sanction negative ones.

- *Customer sensitivity*

Taking proportions as indicative, opinions regarding Chinese customers sensitivity to sustainability issues are similarly distributed within the two sets of respondents.

- *Obstacles to CSR*

'Subordinate' figures do not feel 'Lack of competencies' and 'poor regulations' as compelling as 'Senior' respondents, nevertheless they do agree with the counterpart concerning the criticality of 'Non-ethnicity', 'Awareness' and 'Competition', this last one even with more emphasis.

- *Most critical issue*

The 'Senior' set has brought forward many critical issues and, although 'workers rights' lead the ranking, 'Transparency' and 'Quality standards' also play an important role. The 'Subordinate' respondents, instead, do not vary, if not in a negligible number of instances, from the majoritarian opinion.

- *Main actor in improvement process*

Distribution of data about who should be the main actor in the improvement process towards more sustainable practices is again homogeneous, but for 'Chinese actors', who, in proportion, should cover higher responsibilities in the 'Subordinate' group's view.

- *Main driver for improvement*

'Risk Control' in the mind of 'Subordinate' respondents and 'Efficiency' in that of 'Senior' ones have been proportionally given the utmost importance, whereas the other variables have been imputed substantially the same degree of responsibility, but for the case of 'Risk Control' in the 'Senior' group, which is not perceived as a major determinant.

#### 4. Cross sectional qualitative assessment of the data

Different problems affect different industries, or at least to a different degree. This assumption has been more justified than ever listening professionals operating in various fields pointing out the main challenges they have to face everyday in their job.

Although interesting as a throughout assessment of the interviews' key points, the analysis of the tables fails in representing nuances and personal comments added by the respondents or inferred from their stories. Some paths have emerged, especially nationality and industry related, which we will now briefly portray going once again through the criteria and adding to the mere data description specific evidences gathered in the course of the interviews.

- *CSR definition*

The definition of Corporate Social Responsibility as pervasive to all company operations has been the most popular among respondents. Few people believe it has to be, in theory, a set of unrelated policies to the core. Bottom line concepts and the 3Ps theory (People, Profit, Planet) have been referred to by most of 'Senior' roles and 'Related' professionals. The internal dimension of companies has been given substantially more emphasis compared to the external one and interviewees, on average, appear more inclined to see the 'benefits to community' as 'benefits to employees'.

The term "CSR" has often been received with hostility or fear not to be qualified enough to take an interview on the issue. Interviewees, before agreeing to participate to the research, had to be explained in the grand part of the instances, CSR is nothing more than "how companies decide to carry on their business", so it would be hard believing somebody could not be touched by that. Some discomfort has also come from the side of professionals of the third sector, social entrepreneurs or small companies that feel it more as an embellishment label to be used by large corporations to show off and cover unhealthy practices, rather than a set of coordinated policies helping businesses to be more sustainable.

CSR definition's criteria has had an influence over 'Company CSR policies'. Many interviewees, who have denied having CSR practices in place, in fact, consider them a standard behavior. This has been particularly true considering basic compliance and whether it should be included or not in the "sustainability package".

- *CSR department*

Opinions about the necessity of a CSR department were substantially divided in between those who deem it important to have some dedicated organizational function that plan, guide and monitor social performance of a company and those who feel it more like a costly addition that would just divert resources. Chinese people appear more inclined towards the former, stressing particularly the need for supervision. Professionals embracing the same opinion have also pointed out the fact different operations are affected by different problems, so it is not sufficient defining broad principles of ‘good faith’, but it is crucial the presence within the organization of properly technically trained personnel. The deterrents of this stand have instead highlighted not only the risk of misallocations of resources, but also that of obtaining the opposite effect: instead of deeper integrate CSR into everyday operations make it an extraneous concept to which is rarely paid any attention.

We have had proofs of both the cases. Some big and mid size companies in the dataset have actually provided examples of fully integrated CSR managers figures. It is also true that, other interviewees in the ‘Related’ category, especially compliance managers for manufacturing factories or in the construction industry, testified the fact they have a hard time in implementing their programs and are often considered subordinate figures subjected to the decisional authority of the leadership or top management.

- *CSR instigator*

‘Leadership’ has emerged as the most important driver of responsible behaviors in the company. In particularly ‘Chinese’ respondents brought the issue on the level of example. Most of them consider it necessary the owner first shapes the organization with his values and acts accordingly. Being less radical in the explanation, ‘Non Chinese’ respondents have stressed the ethics that should pervade the company and passed to employees through the establishment of a sound corporate culture.

- *Most important Stakeholder (personal opinion)*

Respondents substantially split in three big groups. Those who believe ‘Owners’ should be paid more attention and those who have chosen ‘Employees’ or ‘Depends’. Interviewees in favor of the ‘Owners’ feel it utmost important their needs get satisfied, in so far as the business is both financially dependent on them and subjected to



their decisional power, so that if they are not contented with what they are getting it would be unlikely any other stakeholder can be satisfied. People who have chosen 'Employees', on the other hand, remarked the fact "good team delivers good results". China specific considerations to this regard have been often made, relating them to the concept of trust. The high turnover seems to be a widespread problem for businesses operating in China and attracting and retaining best elements is currently felt among the top priorities. Nevertheless few people believe Chinese employees are influenced by the image of good employers and see them far more price sensitive. This, which is probably true at lower levels of factory workers, is not the sole reality for more skilled personnel. Chinese subordinate interviewees, when asked, have said to pay more importance to benefits than in the past due to the high rise of prices of services and housing, which makes their monetary purchasing power day by day lower.

- *Most important Stakeholder (company)*

According to the interviewees' perceptions their employers mostly value the satisfaction of 'Owners' or 'Clients'. Among the first ones the proportion of small businesses have been foreseeably higher, whereas in the second group many answers belong to consultants, whose social outreach is often dependent on the clients. Important new evidence has emerged from the industry breakdown. Some industries, where clients exert high purchasing power, like manufacturing, have customers' needs at the center opening up ways for them to raise requirements and reinforce improvement, which does not appear to be, unfortunately, the current situation in China.

- *CSR policies of the company*

The answers about the 'CSR policies at company' set of questions suffered of a high bias due to respondents' personal beliefs about what should follow in the category of CSR. 'Environment', for instance, has got very few mentions, although most of the interviewees who have not considered it work for companies complying with the same international standards that were proudly cited by others. This has been particularly evident interviewing people who are now working in China after several other experiences abroad, even better if in the same companies. They had self-evidently far higher benchmarks to deal with compared to Chinese respondents with no oversea experiences. Although many

international firms nominally implement the same policies for China and abroad, it is even true not a single person has confirmed they can survive without putting in place some relaxations.

Among the most frequent comments made, besides the problem of compliance, there has been the fact foreign companies have been said to often modify their CSR programs turning them in the direction of philanthropy, so to have something to show to investors in their sustainability report and at the same time enhance profitability availing of country specific conditions that allow loosely applied regulations and poor attention to some areas, like workers, which are of cardinal importance elsewhere.

A last remark ought to be done concerning so called 'Code of Ethics' that have been repeatedly mentioned as totally useless and void of any practical implication.

#### ▪ *Regulations*

None in the dataset has said to be fully satisfied with the current regulatory action from the government. Nevertheless almost half respondents are optimistic about what has been achieved in the last few years especially in the environmental field. Regulations appear enough, if not too much, in some areas like workers' rights that we will see emerging among the top current problems. Some interviewees went beyond simply pointing out problems of regulatory implementation, saying those laws are actually a deterrent to improvement since they often set non realistic levels looking at China environment.

Some specifications have been nevertheless made considering governmental action at the central and local level. Interviewees' opinions were varied regarding this issue, as some of them have said they feel a strong support from the municipalities they are working in, while others have condemned the authorities on the ground of low ethical standards and hostile behavior towards foreign businessmen.

Lower satisfaction with regulations has come from the side of 'Related' professionals and 'Consultants', but also from interviewees belonging to 'Retail and Manufacturing' and chemicals. They have particularly complained about quality standards often lower than the international ones, thus resulting in lower quality products. Although some international companies still have to make sure these are suitable for exporting, some others actually take advantage from the



situation operating different lines for China and for the Export market.

- *Customer sensitivity*

Customer sensitivity to sustainability issues is still considered quite low by a good part of the dataset, especially if confronted with price and quality considerations. The average Chinese customer is in the “value for money” stage and appears rarely inclined towards paying a premium to be ensured the product has been produced in a “fair” way, so that more education would be needed to enhance sensitivity to the issue and make it worth for companies to work on improvement, also in order to expand their market share. Nevertheless ‘Chinese’ respondents do not fully agree on this point. This might be due to the fact there is a rising concern for environmental and product safety issues, mainly due to the recent break down of major scandals and the reduction in people’s life expectation. Besides this, as pointed out by some respondents, customers do not fall in a single category. Those in the retail seem to be generally more aware, and the same is true in the high-tech where clients tend to associate good factories’ outlook to a higher quality of products. This kind of reasoning is absolutely far from other industries such as ‘Manufacturing’ or ‘Construction’, where price considerations prevail.

- *Obstacles to CSR*

Cultural issues play an important role against the development of best practices according to the interviewees’ opinion. A substantial portion of the dataset has portrayed Chinese people as generally short-term minded, often driven solely by the profit objective and extremely reluctant to change. Without going that in deep, the majority has remarked the lack of awareness, which conditions people behavior. Not everybody at the top is aware of the fact CSR is first of all about sustainability of the business and enhanced future profitability, and appears reluctant towards agreeing on changes to the existent way of carrying out operations at the company that could possibly impair performance during the adjustment phase.

In the case of compliance, the most often reported issue concerns the fact the obstacle is not generally the initial drop down investment, but rather persuading owners to perpetuate it in time, and ensuring levels of compliance are maintained and monitored throughout the years.

'Competition' is highly subjected to industry specific considerations in so far as not all companies compete on prices and, besides, the productivity problems shared by many factories are given a valid solution by sustainable practices such as improving waste management or using renewables.

▪ *Most critical issue*

Where many encouraging news come from the environmental area, labor conditions in China have still a long way to go. Although apparently the grand part of interviewees' company has CSR policies dedicated to them, very few people in the dataset considered employees at their company fully respected in their rights as the Western world would dictate and regulations prescribe. Workers' treatment is not even an important parameter on which China suppliers are evaluated. Notwithstanding the recently enhanced attention towards a "clean supply chain", those who operate in the area of procurement reported the fact they are seldom asked by their clients to find suppliers compliant on that side and, at the same time, compliance and CSR managers working for companies supplying in China or having China operations have admitted they often have to surrender the fact being fully compliant would imply having to shut down the business. Most of the people relate this issue to China's competitive advantage, saying companies have moved their operations here with the purpose to take advantage of regulatory/monitoring gaps. Multinationals have been often portrayed in a negative way, accused to ask for compliance as a façade and immediately ready to place huge orders to be executed in few time and at the lowest price. At the same time opinions converge around the fact not all employees would welcome stricter regulatory enforcement in the same way. Many of the respondents deem it necessary a 360 degrees contextualization of the issue believing factory workers would not be interested in having the after-hours provision enforced since they are generally migrants who simply care about making the most in the shortest period of time. Safety issues are in the same line, witnessing a widespread uncaring attitude by the employees, who sometimes refuse even to use special protections because they consider them uncomfortable or ugly to wear. The only way out in this area has been foreseen through a natural adjustment thanks to labor market forces. Labor shortages are, in fact, at the order of the day in some areas and industries, so that an improvement in their conditions will be a must to attract the

best elements. Although this might be true in specific sectors, other realities in which companies, especially Chinese, are the single employer, or even simply taking graduates coming from less known universities, face a different panorama, in which the balance of power is exactly the reverse.

Transparency follow workers' rights suit. The Medical Industry, Real Estate and Construction have been often explicitly cited as highly affected by corruption problems, whereas people belonging to procurement and retail have generally preferred calling those "necessary business practices spanning the border with legality". Providing more transparent information is, anyway, not necessarily related to criminally punishable actions, but may well be referred to reporting, which has been mentioned as a problematic area in terms of comparability of results and skills of those who should be in charge of the drafting with the outcome of exposing business partners to risks and uncertainties.

- *Main actor in improvement process*

Once again the issue of who is likely to have the greatest chance of success in driving the improvement process brought to some disagreements among respondents. 'Related' professionals seem to be confident in the possibility to achieve systemic improvements coordinating the actions of companies, government and the third sector, notwithstanding the fact they have often lamented absence of the required technical skills in Chinese staff assigned to take part into these programs.

The majority, anyway, do not believe the third sector in China, at this stage, is strong enough to be an actor of change at the same level with the other two sectors. Opinions were thus substantially divided into those in favor of the need of governmental action and those who see the generation of positive spillover effects FIEs in China's first responsibility. Supporters of the former view do not feel international companies interested in renouncing to the advantages they can get thanks to looser regulatory controls, so that, as everything in China, they deem it necessary government step into, like the case of environment proves, leaving no hope to issues falling outside governmental priorities, which are generally set based on convenience. Those who support the latter view, among which the majority are Chinese, instead, consider the government too weak and corrupted to be capable to make a difference and expect foreign

companies to change their attitude towards China operations for the better.

Few people have stressed the importance of getting Chinese companies and population on board. This minority considers strictly necessary playing on education to enhance awareness and instigate willingness to break the circle of unhealthy practices resulting from the combination of governmental shortages and foreign companies exploitative behaviors.

▪ *Main driver for improvement*

'Efficiency' is an extremely powerful concept with Chinese and Non-Chinese companies operating in Mainland, which can be used to set the change in motion. Energy and wastes sensibly condition daily operations often resulting in unstable operations. Environmental solutions have already proven "going green" is profitable besides eco-friendly, which has not happened yet with workers' rights, nor it is foreseeable in the near future. 'International exposure' has also been given major weight independently from the companies' country of origin. China is day by day more open and it gets significantly harder for multinationals to hide operations here, furthermore Chinese companies are in the beginning of their internationalization process that will require them to necessarily raise standards to meet the minimums abroad. Among the Chinese respondents belonging to the 'Related' group 'Risk avoidance' also seemed to represent a crucial aspect. This has to be intended both as risks from sanctions, especially concerning the case of corruption, and reputational risks overall. As already pointed out in the section about 'Customer Sensitivity', image benefit is still the least important reason to stress in order to persuade companies undergoing an improvement process. This is significant to note considering the fact at the root of CSR development in China there are principally public relations' issues and PR firms or departments are often charged with the task of designing programs for companies. Professionals in the sector have, nevertheless, taken distances from this approach that they consider insufficient, due to the technicalities needed to ensure operations are impacted by CSR policies.

## 5. Next steps in the research

The preliminary results of the initial round of interviews will serve as the bases and references to 1) verify and revise the theoretical assessment model, 2) fine-tune the methodologies adopted in interviews and on-line surveys, incl. structure and content.

For the following implementation of this research, further interviews and questionnaires will be conducted with specific stakeholders of these FIEs, as we are aiming to have a thorough study of the stakeholders' request for the CSR behaviors and performance of foreign-invested enterprises.

With this cross analysis of ethical pursuit of both FIEs and stakeholders, we expect to identify the key areas and criteria to the focal point of their CSR demands.