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ACHIEVING SUSTAINABILITY WITH A STAKEHOLDER-BASED CSR ASSESSMENT MODEL FOR FIEs IN CHINA

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Abstract: Foreign Invested Enterprises (FIEs) have been playing an important role in the fast developing Chinese economy, but there is a growing need to improve 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 on which 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. This article, based on the results of international and domestic research on CSR, probes into the CSR criteria and guidelines for FIEs in China, and seeks to finally establish a feasible assessment system for later research and FIE sustainability auditing program in China.

Keywords: CSR assessment model, stakeholder, foreign invested enterprises, Chinese context

Introduction

By the end of 2008, there were 434,900 registered foreign invested enterprises (FIEs) in China (including 146,900 affiliated agencies). The total registered capital has reached USD 1,300 billion with total investment of USD 2,320 billion (The National Bureau of Statistics, 2009). As of the first half of 2002, most of the World's Top 500 companies have established businesses in China with 3,096 projects, except for certain companies restricting investment from certain industries by Chinese regulations. Generally speaking, before 2009 the FIEs enjoyed fast and steady growth in China. Foreign investment has brought advanced manufacturing technologies and management know-how to China, which has helped in improving the domestic industrial structure, enhanced the quality of China's economic development, mitigated the pressures of the job market, and contributed to China's tax revenue. Meanwhile, FIEs have obtained global competitiveness with low-cost labor, local management talents and preferential policies specially offered to FIEs in China.

However, after the experience of the global economic recession in 2009, China has witnessed a decrease in foreign direct investment and a restructuring of FIEs (The Ministry of Commerce, 2009). The new challenges make it necessary for businesses worldwide to "fulfill the totality of its corporate social

responsibility” (Carroll, 1998) and “develop processes that involve the organization's stakeholders and that create organizational conditions for self-generation, creativity, resilience and action planning” (Elizabeth, James & Kathryn, 2010). Chinese consumers are increasingly supportive of CSR (Ramasamy & Yeung, 2008). In the meantime, the unethical conduct of some FIEs, such as “Bribery-Gate” of Siemens, has triggered the public attention and debate on their social responsibilities (Hairui, 2009). At such a critical moment of ensuring the steady, healthy and sustainable development of foreign investment in China, there is an urgent need of a scientific, comprehensive and feasible assessment system to monitor the ethical performance of FIEs and the fulfillment of their social responsibilities. There have been several well running international indices and assessment systems such as Dow Jones Sustainability Index (DJSI), FTSE4GOOD Index and JSE-SRI Index, but an assessment system catering to the foreign investment environment in China is still missing. Relevant surveys find that sustainable development is a universal challenge recognized by most business managers, but CSR practices are out of line with the awareness (Hou, 2007). Practitioners need new strategic insights and business operation guidelines to achieve sustainability. In this article, the conceptual model of an assessment system and index with consideration of the Chinese foreign investment context will be proposed based on the stakeholder theory and the Chinese context.

Theoretical Background

Research on the theoretical construct of CSR could be traced back to the 1950s, which marked the modern era of CSR and went through three major stages (Carroll, 1999). From the early 1960s to the late 1970s, the dominant theories were Corporate Social Response and Corporate Social Responsibility, of which “the four domains of Corporate Social Responsibility” (Carroll, 1979) remain at the core of the theoretical research. Carroll (1979) offered the definition of CSR as “...[encompassing] the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.” Later, he elaborated on his 1979 definition and categories of CSR:

“In my view, CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible...then means that profitability and obedience to the law are foremost conditions to discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent. Thus, CSR is composed of four parts: economic, legal, ethical, and voluntary or philanthropic”. (Carroll, 1983)

The second stage started from the late 1970s to the mid-1990s. Wood (1991) revisited the theory of Corporate Social Performance (CSP) (Carroll, 1999) and developed and expanded Carroll's “four domains of Corporate Social Responsibility” (Pinkston & Carroll, 1996). Based on Wartick and Cochran's (1985) definition of corporate social performance, Wood took steps further and redefined the CSP as:

“...a business organization's configuration of principles of social responsibility, process of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.” (Wood, 1991)

Wood's reformulated and reconstructed a theoretical construct of corporate social performance (Table 1) and argued a tripartite linking of the three elements of principles, processes and outcomes (Wood, 1991):

Table 1. *The Corporate Social Performance (Model Wood, 1991, pp: 694)*

| |
|--|
| Principles of corporate social responsibility |
| Institutional principles: legitimacy Organizational principle: public responsibility Individual principle: managerial discretion |
| Processes of corporate social responsiveness |
| Environmental assessment Stakeholder management Issues management |
| Outcomes of corporate behavior |
| Social impacts Social programs Social policies |

(1) Principles: Borrowing from Carroll's (1979) four categories of CSR, he developed the principles of CSR which state that business institutions should use the power responsibly, of which the society has granted its legitimacy. Organizations should be responsible for outcomes involving society (Wood, 1991), and the managers should act toward socially responsible outcomes.

(2) Processes: Intro-organizational responsiveness processes, including assessing environmental conditions, attending to the demand of stakeholders and developing plans and policies for responding to changing conditions (Ackerman, 1975) and social issues (Wartick & Cochran, 1985), allow the conceptual development shifting from the categorization to the implementation phase (Frederick, 1978), which complement but does not replace corporate social responsibility (Wartick & Cochran, 1985), and integrate the theories of Corporate Social Response and Corporate Social Responsibility which originally were independent from each other.

(3) Outcomes: The three elements: social impacts of corporate behavior; programs developed to implement social responsibility and policies of companies to handle social issues and stakeholder interests (Wood, 1991) constitute the resulting outcomes of corporate actions and choices (Windsor, 2001) which "are of direct and obvious interest in the assessment of corporate social performance" (Wood, 1991).

As Wood puts it:

"...CSP as a multi-faceted whole, beginning with the input of motivating principles, carrying through with responsive processes, and ending with observable outcomes. " (Wood, 1991)

Wood provided a valuable framework for overall analysis of business and society by having a "micro-level" dimension that emphasized outcome or performance (Carroll, 1999) through which he focused on the interface between businesses and the environment (Wartick & Cochran, 1985).

From the mid-1990s and up to the present, the academic circle has witnessed the third stage of development when the stakeholder theory arose as the theoretical construct of relevant research in this area. In his book *Strategic Management: A Stakeholder Approach*, Edward Freeman first described the basic characteristics of the stakeholder theory, and explained the effect and importance of this theory to the sustainable development of the enterprise from a strategic perspective (Freeman, 1984). His definition of stakeholder states as follows:

“...any group or individual that can affect or is affected by the achievement of a corporation’s purpose” (Freeman, 2004).

Freeman’s stakeholder theory makes clear the responsibility of businesses to various groups of protagonists within the society (Ramasamy & Yeung, 2008) that have a stake in the company. The model considered 7 stakeholders originally: the shareholders, as well as the employees, both workers and management (Peter & Nancy, 2009); the customers; government; competitors; suppliers; community (Freeman, 1984), which was later remodeled and categorized by Freeman (2003) into the “internal” (financiers, suppliers, employees, communities and customers) and external (NGOs, environmentalists, governments, critics, media and others). Criticism about stakeholder theory focused on the ambiguity of its definition (Fassin, 2009) and difficulty to identify and manage because it is context-specific (Hall & Vredenburg, 2005). However, it still remains the “fundamental and useful” unit of analysis about business’s social responsibility by helping managers become more effective in identifying, analyzing and negotiating with key stakeholders (Freeman, 2004) because of its comprehensiveness and feasibility.

Methodology and Structure

In this article, instead of building the discussion on the philosophical or theoretical point of view, a different approach has been chosen by first comparing and analyzing the structure of the existing CSR assessment systems and indices (three international and one domestic) and then referencing the stipulations from laws and regulations in China and international CSR standards, rules, guidelines and principles, which serve as the framework of the conceptual model. Based on this framework, this article will propose an assessment model for FIEs in China.

Review of the Existing Assessment Systems and Indices

Our literature review finds the majority of the existing international and domestic assessment systems and indices adopt the triple-bottom line theory (TBL) rather than the stakeholder theory (see Table 2). This approach and arrangement has enabled the rating institutions and businesses to gain an ambiguous picture of the enterprises’ social responsibilities.

Table 2. Index and Adopted Approaches

| Index | Approach | |
|--|-------------|--------------------|
| | Stakeholder | Triple-bottom Line |
| Dow Jones Sustainability Index | | √ |
| FTSE4Good Index | | √ |
| JSE-SRI Index | | √ |
| CASS “China Top 100 CSR Development Index” | √ | √ |

Dow Jones Sustainability Index (DJSI)

The Dow Jones Sustainability Index was the first sustainability index in the world, which was created by Dow Jones, STOXX and SAM in 1999. The DJSI has 3-tiers of criteria based on the TBL theory. The 1st-tier criteria include economic, environmental and social responsibilities. Under the economic criterion, there are 4 sub-criteria (2nd-tier) such as corporate governance, risks and crisis management, compliance/bribery and industry-specific criteria. Under the environmental criterion, there are 3

sub-criteria (2nd-tier), namely, environmental performance, environmental reporting and industry-specific criteria. Likewise, the sub-criteria for the social responsibility are human resource development, corporate citizenship/philanthropy, social responsibility reporting, employment performance and industry-specific criteria. And there are a number of 3rd-tier criteria under the second level.

FTSE4Good Index

The FTSE4Good Index was initiated by the London Stock Exchange and Financial Time in 2001 to promote ethical investment, covering 100 enterprises across England, Europe, and America (FTSE Index Company, 2006). According to its definition, a socially responsible business should accept responsibility for sustainable environmental development, and positive stakeholder relations; it should support and protect human rights, favorable supply chain and employment standards and implement anti-bribery measures, all of which serve as the 1st-tier criteria of the index. Each criterion is further developed into 3rd-tier criteria (core and objective), which are categorized into policy, management and reporting.

JSE-SRI Index

The JSE-SRI index was created by Johannesburg Stock Exchange in 2004 to assist businesses in integrating the principles of TBL and favorable governing structure into the daily operation and management (Johannesburg Stock Exchange, 2007). Quite similar with the structure of FTSE4Good index, The JSE-SRI index selects economic, environment and social responsibility as its 1st-tier criteria, which then divides into more detailed and comprehensive 3rd-tier criteria categorized into policy, management and reporting.

China Top 100 CSR Development Index

China Top 100 CSR Development Index was originated by the Chinese Academy of Social Science in 2008. Based on the stakeholder and TBL theory, the index accepts 4 criteria as major social responsibilities for businesses, namely responsible management, market responsibility, social responsibility and environmental responsibility. These top criteria are then divided into 13 2nd-tier criteria: responsible governance, responsibility promotion, communication, shareholder responsibility, customer responsibility, environmental management, and so on, with over 100 sub-criteria (3rd-tier).

The TBL theory is used widely. However, implementing TBL can be very complicated since conflict of interests arises among respective stakeholders (John, 2009). These assessment systems and indices failed to provide businesses with specific and comprehensive answers as to whom (stakeholder) they bear such social responsibilities, without which a feasible action plan is relatively impossible, which makes the conflicts hard to settle if the analysis only rests on the ethical performance of businesses on TBL.

For decades, CSR has been a subject of intense debate among scholars and practitioners. At the practical level, there appears to remain much confusion with respect to how to build or integrate CSR into the overall strategy of the firm. Typical approaches to CSR include developing a corporate Code of Conduct, preparing TBL reports and launching public relations campaigns that highlight a given socially responsible behavior and actions. A business' social responsibility is quite often evaluated against principles, performances, and social issues. However, they are usually too far removed from the company strategy and management (Jeremy, 2008). The principles of CSR and conventional social issue management are usually too broad and complicated, whereas the interests and concerns of stakeholders are integrated into the daily operations and management of the company, hence the analysis of the

stakeholders and their demands makes more sense in providing business with feasible and comprehensive answers to be socially responsible. Companies interact with other parties, or stakeholders, and this interface makes the analysis of the relationship between business and its stakeholders more prominent than the traditional rights-based approach. As Freeman puts it:

“...stakeholders are about the business, and the business is about the stakeholders.” (Freeman, 2004)

Therefore, the stakeholder approach is clearer and more powerful in translating and integrating the ethics and CSR into the corporate strategy and management (Fassin, 2009). In this article, the principles of TBL are not rejected completely; rather we will borrow ideas and principles of CSR from this theory to integrate into our model, serving as a reference in categorizing the laws and regulations in China.

Legal and Moral Responsibilities

Firms, in whatever industry they specialize in, have to abide by laws if they want to survive, so firms should fulfill their legal obligations first. As Carroll (1991) argued, it is important that a successful firm be defined as one that is consistently profitable and it is also important to perform in a manner consistent with expectations of the government and the law. Legal responsibility is the basic responsibility that firms should take, but if they want to have a sustainable development in the long term, they need also take the moral responsibility and develop a good relationship with their stakeholders. From the laws and legal regulations in China, we can identify what legal responsibilities firms should undertake and in international rules or standards, we can select what moral responsibilities firms should fulfill. On the basis of summarizing the laws, rules or standards, the authors build the framework of the CSR conceptual model. (See Table 3)

The criteria for selecting laws, rules or standards are that it has to be in accordance with one of the following principles: first, it is related to one of the stakeholders, e.g. China Labor Law contains some stipulations on the stakeholder of employees. Second, it relates to the economical, social, and environmental responsibilities stated in TBL. For example, Environmental Protection Law is related with the firm's environmental responsibilities. Third, it relates to FIEs in China, such as the Law on Foreign-Capital Enterprises. All the laws the authors chose are exhibited in Table 3 and are divided into three groups according to the TBL theory. The economical laws are related with economical responsibility, the labor laws and intellectual property laws are related to social responsibility, and the environmental laws are relative with environmental responsibility. The international rules are a separate, undivided group because there are fewer rules compared with domestic laws. All the Chinese-version laws are from the website of the Central People's Government of the People's Republic of China. The international rules are from the official websites of their publishing institutions.

Table 3. CSR Conceptual Model

| | |
|--|--|
| <p>Chinese laws/regulations relevant to the economic dimension</p> | <ol style="list-style-type: none"> 1. China company law公司法 2005.10.27 2. China Product Quality Law产品质量法 1993.2.22 3. China Anti-monopoly反垄断法 2007.8.30 4. Regulation on the Prohibition of Pyramid selling禁止传销条例2005.8.10 5. China Foreign Joint Venture Law中外合资企业法 2001.3.15 6. Law on Foreign-Capital Enterprises外资企业法 2000.10.30 7. China Law on Consumer Rights消费者权益法 1993.10.31 8. China Advertising Law广告法 1994.10.27 9. China Anti Unfair Competition反不正当竞争法 1993.09.02. |
| <p>Chinese laws/regulations relevant to the social dimension</p> | <p>Labor Laws</p> <ol style="list-style-type: none"> 1. China Labor Law劳动法 1994.07.05 2. Labor Union Law工会法 1992.04.03 3. Enterprise Income Tax Law企业所得税法 2007.3.16 4. Announcement of the State Council on the Regulations of Paid Annual Leave of Employees企业职工带薪年休假条例 2008.7.17 5. Law Of The People's Republic Of China On Employment Contracts劳动合同法 2007.6.29 6. Regulation on the Implementation of the Employment Contract Law of the People's Republic of China劳动合同法实施条例 2008.09.03 7. Law on Protection of Women's rights妇女权益保障法1992.04.03 8. Law of the People's Republic of China on Work Safety安全生产法 2002. 06.29 <p>IP Laws</p> <ol style="list-style-type: none"> 1. Trademark Law商标法 1982.08.23 2. Patent law专利法 1984.03.12 3. Copyright law著作权法 1990.09.07 |
| <p>Chinese laws/regulations relevant to the environmental dimension</p> | <ol style="list-style-type: none"> 1. Environmental Protection Law环境保护法 1989.12.26 2. China Law on the Promotion of Cleaner Production清洁生产促进法 2002.06.29 3. China Water Law水法 2002.08.29 4. The Law of the People's Republic of China on Energy Conservation节约能源法 2007.10.28 5. Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution大气污染防治法 2000.04.29 6. Solid Waste Pollution Prevention and Control Law水污染防治法 2004.12.29 |
| <p>International Rules/principles /Guidelines</p> | <ol style="list-style-type: none"> 1. SA8000 2. Global Reporting Initiative's (GRI)- Sustainability Reporting Guidelines 3. OECD (Organization For Economic Co-operation and Development) Guidelines for Multinational Enterprises 4. United Nations Conference On Trade And Development Guidance On Corporate Responsibility Indicators In Annual Reports 5. The Good Corporation Standard 6. Global Compact 7. The Global Sullivan Principles |

Responsibility to Shareholders

Shareholders are the investors of one company and are the core factors for its development. Carroll (1991) also suggested a company should perform in a manner consistent with maximizing earnings per share. According to the stipulation of company law and China Foreign Joint Venture Law, the authors have concluded that there are two aspects of responsibility that the company should ensure. First, the company should try best to protect shareholders' rights, e.g. ensuring shareholders' right to view the rules of the company, the minutes of shareholders meetings, resolutions of board of directors and board of supervisors

and the financial and accounting reports and the company should disclose on regular basis the remuneration of its directors, supervisors and senior managers. Second, in order to protect shareholders' rights the company should also implement effective and active risk control and management, e.g. taking measures to guard against insider trading and misappropriation of information, making process to review corporate governance to assess compliance with relevant local codes and the principles. In conclusion, the company's responsibility for its shareholders is mainly an economical responsibility according to the triple bottom line theory.

Responsibility to Employees

Employees are important to any company. Sybille (2006) suggested that firms should provide employees with a fair and safe working environment. On the basis of the protection against employees in labor law and Law on Employment Contracts, the authors conclude that there are five kinds of responsibilities related to employees.

First, on employment contract and salary, the conclusion and modification of a labor contract shall follow the principles of equality, voluntariness and the wages of an employee on probation may not be less than the lowest wage level for the same job or less than 80 percent of the wage agreed upon in the employment contract, and may not be less than the minimum wage rate in the place where the employer is located. Second, on part-time labor, the company should not stipulate a probation period for part-time labor. The hourly compensation rate for part-time labor may not be lower than the minimum hourly wage rate prescribed by the local government of the place where the employer is located and the labor compensation settlement and payment cycle for part-time labor may not exceed 15 days. Third, on employees' development, Sybille (2006) suggested the companies encourage and help employees to develop skills that further their personal and professional development throughout their working lives, so the company should provide laborers with vocational training in a long and planned way. Fourth, on employees' rights, the company shall not recruit minors under the age of 16, and laborers, regardless of their ethnic group, race, sex, or religious belief, shall not be discriminated against in employment. At the same time, women shall enjoy the equal right with men to employment. Fifth, on health and safety, the company should set up and improve the responsibility system for work safety in their own units and make arrangements for the formulation and implementation of their own units' rescue plans in the event of accidents. According to the above discussion and TBL, the responsibility to employees covers mainly economical and social responsibilities.

Responsibility to Competitors

According to the rules of Anti Unfair Competition Law, the responsibilities to competitors are mainly economical responsibilities and divided into two parts. First, on fair competition, the company shall not damage other competitors through unfair methods, not infringe upon other business secrecy and not sell commodity at the price lower than the commodity's cost in order to push competitors out of the industry. Second, on anti-monopoly, companies should voluntary ally and expand the scope of operation, not fabricate and spread false facts to damage the business reputation or commodity fame of competitors.

Responsibility to Suppliers

The responsibilities to suppliers mainly are economical and social responsibilities and are discussed in three aspects. First, the company should build good relationship with suppliers, e.g. making clear and

transparent processes for selecting suppliers; terms of business with suppliers are clear and respected; where business terms are changed, the impact on suppliers and contractors is considered before implementation. Second, on protect suppliers' rights, e.g. intellectual property, such as copyrights, trademarks, patents, belonging to suppliers or contractors is used only with their explicit permission and the company should make a process for acknowledging and responding to supplier and contractor complaints and comments against a defined timescale and ensure that all suppliers are routinely paid in accordance to agreed terms and ensure that there are no forms of bribery or corruption in relation to suppliers. Third, the company should prioritize partners with good CSR records and Encourage up- and down-stream enterprises to improve CSR standards, etc.

Responsibility to Distributors

Companies bear upon themselves the responsibility to distributors in providing precise product information, regular training and full, timely payment.

Responsibility to Creditors

According to the stipulations of China Company Law, the enterprise should, to the best of its ability, protect the interests and benefit of creditors, such as inform in time during a company merger, decrease of registered capital and liquidation.

Responsibility to Customers

According to Law on Consumer Rights and Advertising Law, the responsibilities for customers are divided into three kinds. First, on product's quality, the quality of a product shall undergo inspection until it proves to be up to the standards and the company shall not manufacture and sell products that do not conform to the standards and requirements for ensuring human health, personal safety and safety of property and marks on the products or on the packages thereof shall be authentic. Second, on advertisement: an advertisement shall not contain any false information, and shall not cheat or mislead consumers and not impair the physical and mental health of minors or disabled people. Third, on customer's rights and privacy: protecting the rights and interests of consumers may suggest that the department concerned disposes the product's quality problems as reported by consumers. Consumers shall enjoy the right to obtain true information of the goods they purchase and use or the services they receive; the company should protect customer privacy and customer data and respect their human dignity, national customs and habits.

Responsibility to Local Communities

Good companies are expected to build good relationships with local communities. When making plans and activities, the company should take into account its impacts on communities. There should be a process in place to deal with enquiries and complaints from members of local or national communities within a defined timescale. There is a program of support for community projects and activities that is appropriate to the organization and the needs of the community. There is a process to ensure that risks to public safety resulting from the organization's products and operations are minimized. The company should engage in culture, education and healthcare community projects.

Responsibility to the General Public

The responsibility to the general public is mainly in the dimensions of social responsibilities. The company should observe social morals and business ethics, conduct business in good faith and subject itself to the supervision of the public. Meanwhile businesses should support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in human rights abuses.

Responsibility to the Government

Responsibility to the government is also mainly in the dimension of social responsibilities. The company should abide by laws and administrative rules and regulations and subject itself to the supervision of the government and must submit fiscal reports and statements as required and accept supervision by financial and tax authorities. At the same, actions should be taken in response to incidents of corruption.

Responsibility to the Environment

Many companies provide limited, qualitative, non-financial information mainly through an annual report, but some large companies, particularly those operating in environmentally sensitive industrial sectors have started disclosing significant quantitative and qualitative information on the issue (see, for example, KPMG, 2002) According to laws on Environmental Protection and Promotion of Cleaner Production, responsibilities to the environment are divided into three parts. First, on protecting the environment: the company shall incorporate environmental protection practices into their plans and establish a responsibility system for environmental protection and adopt effective measures to prevent and control pollution and the harms caused to the environment. Second, on clean production: the companies shall comprehensively use or recycle materials such as waste products, wastewater and heat generated from production procedures. The use of toxic or hazardous wastes as fertilizer or as fill to build up fields is prohibited. Third, on saving energy: the firms should formulate and implement plans and technical measures for energy conservation, carrying out education in energy saving and train their employees in energy saving on a regular basis.

The companies are expected to make efforts in environment protection and energy saving, because only in this way could they make responsible actions for future generations. Government regulation is an important factor in determining the amount of effort businesses put into environmental concerns. Legal requirements have an obvious influence on the prevention of pollution. Where the legal system does not regulate a business's emissions, this pressure often comes from NGOs, which help to monitor and regulate an industry's carbon footprint.

The Conceptual Model

The article builds the CSR conceptual model for FIEs on the basis of moral and legal responsibilities that firms should take (See Table 4). Freeman (2003) included eleven internal and external stakeholders in his refined model (See Figure 1). The stakeholder model illustrates visually, by adopting a graphical framework, the relationship among the various parties in and around the company.

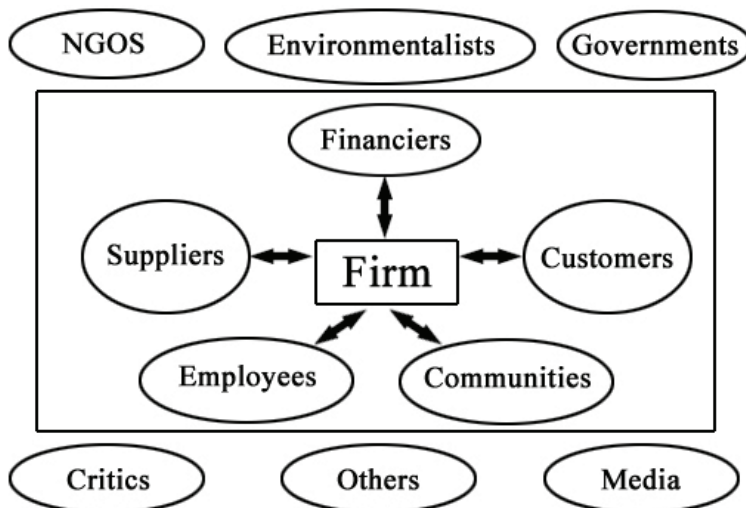


Figure 1. The adapted version of the stakeholder model (Freeman, 2003)

In this article, the stakeholder model, referencing Freeman’s refined model, is reconstructed according to the Chinese context (See Figure 2). The financiers are replaced by shareholders, to whom one company bears substantial responsibility, since the company is, by its definition, an economic and for-profit entity and should make profit and provide benefit to its investors (here means shareholders). Besides the shareholders, we add creditors into the stakeholder list of a company, since the company should bear upon itself certain economic, legal and social responsibility to creditors, especially when the financial status of the company is under change. Competitors also serve as an important stakeholder in the model, since they play a significant role in ensuring a fair and anti-monopoly market environment. The distributors in the business environment also deserve the company’s concern and responsibility for their essential role in the sustainable success of the company. In the model, we divide the communities in Freeman’s framework (Freeman, 2003) into local communities and general public to better represent the distinct demands and related responsibilities. All these stakeholders make the 1st-tier indicators (including shareholders, employees, competitors, suppliers, distributors, creditors, customers, community, general public, government and environment).

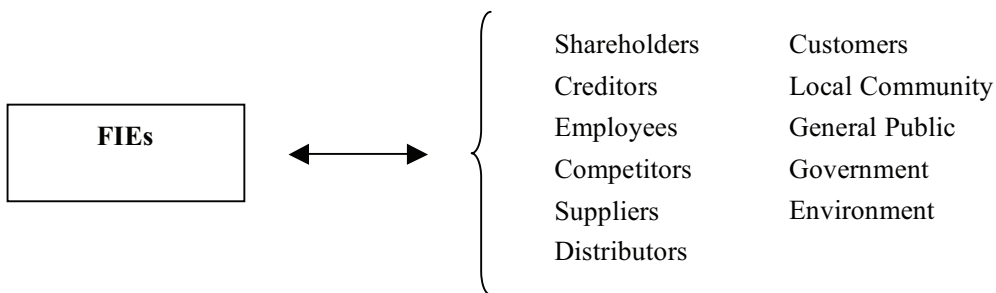


Figure 2. Reconstructed Stakeholder Model (1st-Tier Indicators)

The 2nd-tier indicators show what kinds of responsibilities the company should take and the 3rd-tier indicators are the detailed responsibilities referencing the stipulations of Chinese laws and international regulations (only a part are exhibited).

Table 4. Example Indices for the Conceptual Model

| First-Tier | Second-Tier | Third-Tier (Example Indices) |
|---------------------|--|--|
| Shareholders | Protection of shareholders' rights | <ul style="list-style-type: none"> • Disclose on regular basis the remuneration of its directors, supervisors and senior officers • Deliver the share certificates to shareholders according to law • Have the right to view and copy companies' documents (articles of association, minutes of shareholders meetings, resolutions of board of directors and board of supervisors and the financial and accounting reports).... |
| | Risk control and management | <ul style="list-style-type: none"> • Guard against insider trading and misappropriation of information. • Corporate governance complying with relevant local codes. • Principles and practices of corporate governance are clearly communicated to shareholders and variances from relevant codes are explained... |
| Employees | Employment contract and salary | <ul style="list-style-type: none"> • Conclusion and modification of a labor contract shall follow the principles of equality, voluntariness and agreement through consultation. • Wages during trial employment period should consistent with law on Employment Contract. • Compensation shall not be below the local minimum wage rate..... |
| | Part-time labor | <ul style="list-style-type: none"> • Not stipulate a probation period. • The hourly compensation rate not lower than the minimum hourly wage rate where the employer is located. • Compensation settlement and payment cycle not exceed 15 days.... |
| | Employee development | <ul style="list-style-type: none"> • Provide laborers with vocational training • Organize a trade union to protect the lawful rights and interests of the staff • Provide the organizations of the Communist Party of China with conditions necessary for their activities. |
| | Employee's rights | <ul style="list-style-type: none"> • Not recruit minors under the age of 16 • No discrimination (ethnic group, race, sex, or religious belief • Women shall enjoy the equal right with men..... |
| | Health and safety | <ul style="list-style-type: none"> • Setting up and improving the responsibility system for work safety • Making arrangements for formulating rules and operating regulations for work safety. • Guaranteeing an effective input into work safety |
| Competitors | Fair competition | <ul style="list-style-type: none"> • Not damage competitors through unfair methods • Not infringe upon other business secrecy • Not sell commodity at the price lower than the commodity's cost to put competitors out of the competition. |
| | Anti-monopoly | <ul style="list-style-type: none"> • Voluntarily ally and expand the scope of operation. • Not abuse dominant position. • No monopolistic agreement among competitors... |
| Suppliers | Construction of good relation with suppliers | <ul style="list-style-type: none"> • Clear and transparent processes for selecting suppliers. • Terms of business with suppliers are clear and respected. • Considering the impact on suppliers where business terms are changed |
| | Protection of supplier's rights | <ul style="list-style-type: none"> • Intellectual property of suppliers is used only with their explicit permission. • Acknowledging and responding to supplier complaints and comments on time • Taking suppliers' feedback is into account in managing supplier relationships.... |
| | Suppliers selection | <ul style="list-style-type: none"> • Ensure that suppliers have responsible health and safety practices. • Prioritize partners with good CSR records. • Encourage up- and down-stream enterprises to improve CSR standards..... |

Table 4. Example Indices for the Conceptual Model (continued...)

| | | |
|-----------------|--|---|
| Distributor | Information disclose | <ul style="list-style-type: none"> • Provide timely and precise product information... |
| | Training | <ul style="list-style-type: none"> • Regular distributor training... |
| | Compensation payment | <ul style="list-style-type: none"> • Timely and full payment... |
| Creditor | Protection of creditors' rights | <ul style="list-style-type: none"> • Inform creditors in time when companies combine with others • Inform creditors in time if the companies reduce registered capital • Inform creditors in time when companies carry out liquidation... |
| Customer | Product quality | <ul style="list-style-type: none"> • The quality of product shall be inspected to be eligible. • Not manufacture and sell products harmful for human health, personal and property safety • Marks on the products shall be authentic... |
| | Advertisement | <ul style="list-style-type: none"> • Advertisement shall be true to facts and consistent with the Advertisement Law. • Not contain any false information, and not cheat or mislead consumers. • Advertisements should not impair the physical and mental health of minors or disabled persons... |
| | Consumer's rights | <ul style="list-style-type: none"> • Having the right to check product quality problems with producers and sellers. • Protect the right of the inviolability of their personal and property safety. • Convey true information of the commodities consumers purchase and use or the services they receive... |
| | Customer privacy | <ul style="list-style-type: none"> • Protect customer privacy and customer data. • Respect consumers' human dignity, national customs and habits... |
| Local Community | Construction of good relation with community | <ul style="list-style-type: none"> • The organization's plans and activities take account of its impacts on communities. • Support for community projects and activities that is appropriate to the organization and the needs of the community. • Develop ties and participate in co-operative research projects with local universities, public research institutions. |
| General Public | Observe social ethics | <ul style="list-style-type: none"> • Observe social morals and business ethics, conduct businesses in good faith • Subject to the supervision of the public |
| | Respect of human rights | <ul style="list-style-type: none"> • Support and respect the protection of internationally proclaimed human rights. • Not complicit in human rights abuses... |
| Government | Abide by the law | <ul style="list-style-type: none"> • Abide by laws and administrative rules and regulations. • Subject itself to the supervision of the government... |
| Environment | Environment protection | <ul style="list-style-type: none"> • Protect the ecological environment while natural resources are being developed or utilized. • Incorporate the work of environmental protection into their plans and establish a responsibility system |
| | Clean production | <ul style="list-style-type: none"> • Not importing any technology or facility that fails to meet the requirements specified in the regulations of our country concerning environmental protection. • Recycling of wasted materials from production procedures... |
| | Energy saving | <ul style="list-style-type: none"> • Formulate and implement plans and technical measures for energy conservation • Establish a responsibility system for achieving energy conservation goals • Carry out education in energy saving and train employees in energy saving at their posts |

Conclusion

The conceptual model proposed in this article is to facilitate FIEs and their stakeholders with insights and methodology in analyzing its CSR engagement in China. Meanwhile, it also serves as the core framework of an assessment system for FIEs and other stakeholders to monitor the ethical performance of companies. The adoption of stakeholder approach enables FIEs with useful and relatively simpler tools to identify the interests and concerns of their priority stakeholders, and tries to specify the responsibilities FIEs bear upon themselves to their respective stakeholders, which helps in designing programs and policies to respond to stakeholders' demands. This model focuses on the implementation of CSR rather than the philosophical and theoretical thinking of CSR. In applying this model to the strategic planning and management of the CSR, the managers of the FIEs are well advised to be aware of the industry specifics and context which are important influential factors affecting the effect and impact of their CSR strategies. This is also one of the areas that needs further research. There is no doubt more empirical studies are needed to understand the expectations and concerns of the stakeholders, which are crucial for FIEs in China to achieve sustainability.

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