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Recognitions and Practices of Chinese Private Corporations' Social Responsibilities

Abstract. Any corporation is operating in society and must utilize social resources to gain profit from society, and thus must bear social responsibility. The author argues that corporation social responsibility consists of two principle parts: (1) concern about employees, environment, and resources, and these have to be done by any corporation; (2) from society, for society, and of society. Generally speaking, when a country has gone into an industrial economy from the agricultural economy, the polarization of wealth and poverty emerges. If the gap is too wide, it will cause social turmoil, and thus the gap has to be narrowed by the third distribution. The first distribution is “distribution according to work”: it relies on the principle of priority by efficiency from where the gap of wealth and poverty comes; the second distribution is adjusted through government’s taxation to establish social security system so as to reach the first equilibrium; the third distribution is carried out with voluntary helps from the affluent class by all manners of measures to the disadvantaged in the community. The third distribution often is greater than the previous two distributions in developed nations, in where philanthropic contributions from the haves exceed the total payments of individuals’ income tax and estate duty. Such doing helps ensure basic social harmony, and today, China is still at her start of a run, far from enough. The author believes that the major path the affluent class to help the disadvantaged should be participating in the supply of social public goods and services such as education that is the core foundation for building a harmonious society.

The cause for the development of Chinese private corporations is closely linked to China’s reform and open-up, and the author feels that since the commencement of the reform, Chinese private corporations have all along been in the flourishing spring.

Along with the increasingly stronger supports from the Party and the Government, Chinese private corporations’ development can be said like a load of bricks and like blazes. Many an owner of a corporation became one of those who had been encouraged to become rich before others. But a coin must have two sides, and while our national economy and private corporations have been on the rapid rise, the gap of wealth and poverty is getting wider too. China’s current Gini coefficient gets close to 0.48, up from 0.22 at the beginning of 1980s and representing more than a double increase¹. As the warning line internationally recognized is 0.4 and the serious situation recorded is 0.6, so China’s current situation shouldn’t be neglected. What is more serious is that from today’s tendency, the gap seems to be widening further.

Thereby, the following problems have recently become a heated topic that we all care about: the relationship of those (most are private corporations) who have become rich before others with their social responsibility. In short, should the affluent class

¹ Li Shi: *China’s Recent Income Distribution: Problem and Countermeasures*, Chinese Education Journal, September 27, 2006. pp.11

bear the social responsibility? And how they bear the social responsibility? In fact, it doesn't a mere question of moral duty of owners of private corporations but the question of how private corporations look on and deal with the social responsibility problem.

1. Corporations and Society

The running and operation of corporations can't depart from society, particularly when corporations have developed to a certain size, accumulated certain assets, and got hold of certain wealth. These wealth are derived from the consumption of social resources by corporations that include human resources, energy, and transportation infrastructure that are consumed in corporations' accumulation of wealth, and also include land, factory, and all kind of services provided by the government and by society. A corporation is analogous to a growing plant in the natural environment, where the soils supply it with nutrition, and sunlight, rain, dew, and air supply it with the part and parcel of existence requirements. To earn profits the corporation must rely on other persons and make use of social resources, and once it has earned others' money, it makes itself wealthier, like the tree to grow up taller and bigger. And if this tree in the cause of growing up only consumes resources but not contributes parts of itself to the environment or even for the benefit of its own growing damages the ecosystem and plunders natural resources, this tree will, for sure, not survive for long. This principle of cause and effect in the Nature can be extended as the principle of survival for all corporations in society. All owners of corporations should understand this argument and accept that redounding upon society is not only their responsibility and obligation but also the path for their incessant development. Moreover, generally speaking, the more the wealth corporations get hold of, the more resources they usurp on. According to the principle of "he who gets benefit, he who bears the responsibility", the more the wealth corporations get hold of, the larger social responsibility they will owe it to themselves.

2. The Contents of corporations' Social Responsibilities

It is firstly necessary to explain why we haven't used the word "entrepreneur" but the "owner" or "boss". If one wants to become an owner or a boss of a corporation, one must fulfill only two conditions: (1) to have money, business, and employee; (2) to have relatively stable outputs and profits and to be in certain scale. And "entrepreneur" is a rather respectful form of address, not everybody is deservedly to it.

The root of the word "entrepreneur" is from French language, having originally kind of the meaning of "adventurer". In English language, "entrepreneur" is meant to be someone who set up a corporation and is the commander for the operation and management of that business. Only those business managers who have innovative ways of thinking and are able to achieve remarkable results are deserved to be known as entrepreneurs. Alfred Marshall and Joseph Schumpeter once highly praised

entrepreneurs' important role and social contributions in the development of commodity economy and believed the destiny of entrepreneurs not only belonged to themselves but also to the corporations to which they belonged and to the whole community². The object this paper discusses includes all owners of corporations, particularly owners of private corporations, including entrepreneurs.

For the part of social responsibility of private corporations, because in private corporations ownership right and management authority rest always on their owners, to a very great extent these owners' social responsibility equates to private corporations' social responsibility.

Now, what is these owners' social responsibility? To put it simple, it mainly includes two aspects: (1) while they are seeking to grow the business to be strong and big and maximize the profits, these owners must abide to laws and regulations, treat their employees reasonably well, protect environment, and save energy; (2) they must remember that they come from the community, should redound upon the community, and should return to the community by fulfilling their social responsibility such as helping the have-nots, and make philanthropic contributions and etc.

With reference to the first point, it is generally accepted, and even if there is difference, it is insignificant. Many corporations increasingly pay attention to and abide by relevant government laws and codes and professional rules and regulation that they belong to. For examples, they pay out the taxation payments as required; as many corporations come to know that competitions among corporations are, after all, competition of human talents, they are applying all means and methods, including attractive salaries and fringe benefits to attract and to retain talented employees; moreover, with reference to environmental protection and energy saving, they understand that they have close links to their cost control management and business strategy and so they voluntarily comply with.

The second key content this paper discusses is that by what way owners of private corporations redound upon the community? Should they make philanthropic contributions?

At present there are different opinions in society, and generally can be classified into two standpoints: (1) some believe that as long as these bosses can lead the corporations to be profitable, settle taxation payments on time, pay employees' salary on time, and be environmental friendly, it is good enough, and if they can employ a few more employees so as to create a few more job opportunities for the community, they are regarded as that they have fulfilled the best social responsibility. Some believe that on top of these, the bosses must contribute, more or less, to charity activities, and then they are regarded as they have fulfilled what they should have fulfilled.

The author supports the second standpoint. Of course, to redound upon the community is based on the assumption that the first items of social responsibilities can be completed. Corporations' social responsibilities have a wide coverage, of which some are the very fundamental legal responsibility (for instance the first item

² Yang Jinghong: *Thoughts upon The Concept of Entrepreneurs*, See Chinese Enterprises Internal Journal, www.neikan.com

of responsibilities), and corporations must abide by, and some are ethic duties, not compulsory. For these non-compulsory duties, if corporations are incapable to comply with, it is highly likely that no one will lay an obligation on them. Sure enough, within the survival-of-the-fittest market economy competition environment, many Chinese corporations, particularly private corporations, survival to them is of paramount importance. Some economists gathered from statistics that average life cycle of Chinese private corporations are 2.7 years, compared with those in developed nations are 7.9 years, and believed that it is a serious real problem. Without doubt, today it is not uncommon that some private corporations have failed even to fulfill their internal social responsibilities, such as delaying the shelling out of wages to workers, lowering workers' wages, compelling workers to work overtime or even without overtime payments, and totally ignoring or reducing the shelling out of fringe benefits of "four subsidies—in China, it means from employers' pension contribution, medical insurance premium, unemployment insurance premium, and housing allowances", let alone the fulfillment of external social responsibilities.

However, as long as private corporations are not speculating in earning quick money but intend to grow their businesses bigger and stronger, they must learn and believe the truth as described in the following:

Total quantity of assets of society is relatively stable even when rather limited annual increase is considered. Subsequently, when a portion of people gets "better off", the remaining portion must become relatively "worse off". Like it or not, it is an objective rule. No matter where you are in the world, relative "the haves" and "the have-nots" are forever there. The tendency of the gap of wealth and poverty that are being widened has no sign to reduce or to stop. Irrespective of in any nation, and irrespective of under what system environment, neither all citizens are the haves nor all citizens are the have-nots. Before communism is thoroughly realized, the gap of wealth and poverty is objectively in existence, and the key of the question lies on: how the haves and the have-nots harmoniously coexist.

To handle this problem properly, because the haves are one of the advantaged, they should undertake, more actively and positively, more responsibilities.

3. The Necessity of Corporations' Philanthropic Contributions and its Meanings

As above-mentioned, corporations take hands at philanthropic contribution to redound upon the community is seen as these corporations are undertaking relatively high-level social responsibility. It seems that if one has done so, one is to be praised, and if one is not capable to do so, one seems not to be reprimanded. The author believes, from the angle of China's history, current real situation and the cause of corporations' self development, corporations' philanthropic contributions is of necessity.

Firstly, philanthropic contributions are beneficial to social harmony, and one must understand from the view of distribution system of macro economics. Generally speaking, upon a nation entering into industrial economy from agricultural economy, the emergence of enlarging the gap of wealth and poverty is almost unavoidable. It is

commonly recognized that there exists of three times of distribution: the first distribution is “according to works”, that it lies on the principle of prioritization by efficiency, meaning that who works more and harder, who will get a bigger share of distribution, and who works lesser and not harder enough, who will get a smaller share, and who doesn’t work at all, who will get nothing. Now, this gives birth to the gap of wealth and poverty; the second distribution is carried out by the government’s taxation system, with the tax revenues the government set up the basic social security system, and as a result of it, the first equilibrium is reached; the third distribution takes form of the haves (this paper mainly means the owners of private corporations) or the corporations voluntarily make contributions, set up all kinds of philanthropies and charity foundations to try to help the disadvantaged in society. The third distribution often is greater than the previous two distributions in developed nations, in where philanthropic contributions from the haves exceed the total payments of individuals’ income tax and estate duty. Such doing holds back, to a certain extent, the tendency of the continuing enlargement of the gap of wealth and poverty, and helps ensure basic social harmony.

Secondly, philanthropic contribution is multiple wins, for the nation, for the donee and for the donators.

Constructing social public security system, protecting and assisting the disadvantaged is, first of all, the obligation of the government. Chinese adages say, “Suffering hungry and cold induces motivation to thief”, and “when one’s granary is full, one will then learn self-esteem”. And there are some “who are in poverty and in low social status, they are still determined to be upright”, “who stick to principle for their dignity” and “who are staying in very poor living conditions, they are still optimistic”, but no one can expect and guarantee every one of us to have such high-minded sentiment. When a person’s existence hangs in the balance, and when the person has tried his best endeavors to work hard to try to improve their poor living conditions but in vain, the person is highly likely to “be forced to become a thief” that is in fact an unstable factor that will cause the rise of criminal cases in the community. What is more frightening is that once such colony gathers strength in a large scale and in many areas, consequences can seriously damage our social stability and other citizens’ well-beings. Therefore, when the government’s second distribution makes use of the tax payments from all citizens including owners of private corporations, it in fact is implementing its fiscal payment transfer, tilting towards the disadvantaged. But, fiscal budgets are often in deficit, and although our nation’s annual fiscal revenues increase as high as 20%, we find that there are many aspects still can’t to everybody’s heart. Looking around the western nations, they are equally not optimistic. Fiscal revenues of the U.S. are ten times of ours but the U.S. is still in serious deficit. And looking around the globe, still most nations suffer a similar situation. Now, upon transforming corporations’ contributions, being kind of a form of supplementary to government’s responsibility, into charity foundations, it will bring about a beneficial remedial and balancing function for narrowing the gap.

For the part of the disadvantaged, particularly those who are living below the poverty line that they are struggling for foods and clothes and shelters, the utmost

problem to be resolved is the problem of existence. At present, according to China's national poverty line, our national poverty-stricken populations in rural areas have reached 26 millions, whereas such populations in urban areas have reached 22 millions. Putting the two together is 48 millions, representing 3.7% of our total populations. And according to the international poverty line, daily expenses per capita less than one US dollar is classified as poverty. A recent estimation by the World Bank believes that China at present has about 135 million populations living below the international poverty line³. This represents that in China, we still have more than 100 million persons who are struggling everyday for food and for clothes. If when these poverty-stricken people have illness or there comes the visitation of Providence or catastrophe, they will be even suffering more and hard to live on. This is, beyond all doubt, a real, pressing problem for us.

“The People's Livelihood”, a motto of Sun Yat-Sen, can be quoted to suitably describe the reality that people below the poverty line have to survive, or known as “Human Right” by our modern language. The professed “Human Right” is interpreted as given a certain social history condition, everyone can enjoy or should enjoy, according to his own essence and dignity, the basic rights, of which the prime ones are right to exist and right to develop, and without the right to exist and the right to develop, other human rights get nowhere to start. To begin with a person must want to live before he can go on other progresses. Still, it takes time to set up a sound social security system but some charity foundations can provide the sick or refugees in calamity with extreme urgent, temporary almsgiving; or some long-term, stable educational endowments can provide the poor students with schooling opportunity. Assurances offered by these charity foundations enable those in dire need at least maintain their basic livings before they find opportunities to improve their skill, ultimately to earn their own livings.

The owners of private corporations who philanthropize have to also understand that philanthropic contributions are win-win behaviors. To be straightforward, in as much as the have-nots have the problem of basic human right, the haves equally have also the problem of ownership right. What the most the haves concern about is the protection of their wealth. Clear enough, if the have-nots are for ever in poverty and the haves are for ever affluent, the gap between these two groups will intensify. If the haves stick only at making money, disregarding anything around them, a spirit of hopeless will pervade the have-nots and make them feel despair that is the root of “revolution” or “insurgence”, and when hostile, aggressive means and measures are taken to strive for their purposes, the interests of the haves will sit under the sword of Damocles. On the contrary, when the human right of the have-nots gains basic assurance, they will not “rebel” for the purpose of existence, and not “revolt” against the “lives” of the haves. In a sense, it is a way of the haves' self-protection but too bad too seldom Chinese owners of private corporations can see the reason hidden behind. Believe it or not, a sentiment of animosity against the haves has emerged recently in China. A reporter of the UN once in and around Hongqiao District of Shanghai, a

³ See 2006: *Report on the Development of China's Comprehensive Moderate Well-Being*, Social Sciences Literature Press

high-class residential area visited a junkman whom was asked what was his feeling about so many rich people lived there? He replied, "So much I wanted to kill them all!" The author believes that this news brings a message to light that the haves in China are too mean, are too stingy, and the blame for the emergence the sentiment of animosity against the haves shouldn't be laid only on the have-nots, the need for self-communion by the bosses themselves is of a surety. Americans take an opposite attitude on the very same situation. The same reporter visited a cleaner at Beverley Hills (a high-class residential area for the haves, better than and better known than Hongqiao District of Shanghai) of Los Angeles and asked the very same question as he had asked in Shanghai, and the cleaner said, "Well, work harder, someday I shall move in to live here." It is the right attitude! Then why don't the Americans' have-nots have the similar animosity against the haves? It is because it is not uncommon that American big bosses generously donate astoundingly large sum of wealth to human society. Bill Gates had donated all he has, about 40 billion dollars, and then Warren Bauffett also donated 30 billion dollars to Gates Charity Foundation, and the total 70 billion dollars makes the Foundation to become the biggest one of the same leaven in the world. Charity funds donated by the U.S. private bosses are more than you can count that they not only help solve the problem of existence for the have-nots but also help fulfill the haves' obligation and responsibility to provide the have-nots with opportunity to develop. It is one of the reasons that the U.S. wouldn't burst forth nation-wide insurgence for her peoples have come to some kind of mutual understanding, look like reaching an agreement.

Now, it appears that the best social structure is that the have-nots not only can live on without daily struggling for food and clothes but also they or their children can have equal opportunity to become the haves. "Wealth can't pass down more than 3 generations" has been a behind-the-scenes rule of thumb (Because it is not able to use theory to clearly prove this saying but it is a truth, the author chooses to call it the "behind-the-scenes rule of thumb"), and thus after 3 generations, the rich families will turn to be the poor families. The haves then have to consider their following generations when they will become the have-nots, and won't it better off at least not to worry about their existence if there is protection for minimum livings? Then the haves have to make hay while the sun shines! When they are rich and still owners of corporations, they should make a habit of donating. In a sense, the donations of the haves can be seen as reaching a long-term agreement with the have-nots, meaning that now you are poor, I have the might to help you and I help you, and if in future, you will become rich and I become poor, you will help me instead. This kind of help limits to the help on human right, meaning not only to allow one to avoid suffering from cold and from hungry but also to give one hope and opportunity to promote. Therefore we also call it "the respect of human right". On the other side, should the have-nots make any promise to the haves? If yes, what sort of promises? Ownership rights of the haves must be respected, and the have-nots will not "rebel" and not "revolt" against the "lives" of the haves. Ultimately, they must reorient their attitude toward positive thinking by firstly giving up their animosity against the haves, making efforts to improve themselves, and striving for setting up their own businesses.

To summarize, for the good of themselves and their following generations, the haves must learn to philanthropize. As the average life-span of Chinese private corporations is less than 3 years, there are cases that these owners came a cropper, falling from wealthy down to poor again. If one is wealthy and never gives a helping hand to the poor, and one wants others to give him a helping hand after one collapses, perhaps it is a real wishful thinking!

Relatively transfer of wealthy and poor, and cycles of change, or to use one word to describe it “vicissitude” have been in human society for tens of centuries. It is a virtuous cycle. The author believes that if all the problems mentioned above can be resolved properly, society we are living in is basically a harmonious society.

4. Supporting Education: Emphases on Private Corporations’ Charitable Donation

How can the transfer of wealthy and poor, and cycles of change be realized? Other than external opportunity and individuals’ fate and other uncertain elements, the key is to allow the disadvantaged, particularly their children, have equal opportunity to receive same kind of education that the haves have. The Nature endows some with talent but after a long course of education no one knows who used to have a gift for learning. If one loses one’s chance to receive schooling because one comes from a poor family and thus finds no opportunity to bring one’s talent to the full play, to the nation, to the race it is a loss, definitely. As “schooling can do the deed to change one’s fate”, the purpose of helping poor children to complete their education is to give them the necessary knowledge and skill so as to allow the poor families to be equipped with “the function to make blood”. In the age of knowledge economy, education is especially important, and we can compare education to a ladder, linking between the upper class and lower class of society. Only one follows the ladder one can climb up to a higher rung, and this exemplifies the further need to solve the problem of the right to develop upon solving the problem of existence for the have-nots. Helping the poor children to have “schooling” is nothing but give the disadvantaged the hope and opportunity to develop.

Shanghai Fuda Group, which the author belongs, in 1996 set up the “Fuda Poverty Aid Foundation”. Since then, Fuda Group contributes 500-600 thousands RMB each year mainly for education. As of the end of 2006, donations have totaled to 7.5 millions RMB and a total of 22 students of high school and university received subsidies from this Foundation. Besides, Shanghai Ji Guang High School, the alma mater of the managing director of Fuda group, has received an accumulated amount of donations up to 200 thousands RMB. Shanghai Fu Da Primary School (a charity school under the “Hope Project”), located at the border district of Yunnan and donated by the group, was completed and has been in operation since September of 2006.

Fuda regards social charity as one of the group’s development projects. Every year when Fuda prepares its business budget, the requirement of donation to the Foundation is incorporated according to the size of development of the business. Fuda’s spirit is everlasting and its involvements in charity is not one-off, and ten years

ago Fuda had promised “to help and to care” 10 Shanghai poverty-stricken children until they would enter to university. For ten years, Fuda has followed up its promise, every holiday the children were invited to come to practice in the office, to keep contact, and to attend seminars so as to help them to reinforce their sense of gratitude and obligation to society. Now, 9 of the 10 are studying in university, 2 joined in the Community Party, and 5 were awarded the honor of “Triple-A-Outstanding Student of Shanghai City”. Moreover, Fuda’s “Sunshine Base”, a charitable program, took in 16 problem teenagers to provide them with “boarding and correctional education”. The result proved to be encouraging as some very good feedbacks were received upon their returning to society.

5. Assumption and Conclusion

The author has all along been advocating that the have-nots should have the chance to get an education, and now believes that the haves should learn to be open-minded too! They must learn their social responsibility. A report remarks that only 1% of Chinese owners of corporations are willing to do charity⁴. We can’t but doubt about the accuracy of this report for most of the bosses whom the author met did donate money for charity before. Although not all of them donate a great deal of money, it is a matter of capacity, not a matter of willingness. The author predicts that at present the bosses in China who are willing to make contribution for the cause of charity come to at least 10% of the total, and perhaps it is not enough. Per relevant data, excluding those self-employed, there are about 3 million owners of private corporations in China, and if each of them donates 10 thousand RMB every year (this estimated figure should be affordable for those who are regarded as owners of private corporations at least have an annual income over a million), charity organizations as a whole will have a total donation of 30 billion RMB a year, or if 20 thousand RMB every year is received from the bosses of private corporations, total annual donation will come to 60 billion RMB. Even if China still has 100 million populations are living below the poverty line as surveyed by the UN, with 60 billion RMB donations from the private sector, each of those poverty-stricken persons can have an annual subsidy of 600 RMB, and with our government’s annual transfer payments we can pull them out from dire poverty, to dress warm and eat their fill. But the need of education, propaganda and making the bosses to understand this reasoning to voluntarily join in the team of charity work is the linchpin. When all the bosses donate some day, harmonious society is not far away from us.

On a macro level, from corporations and industries the community expects not just their making profits and providing employments. For examples, the textile industry and finance industry have put forth their social responsibility management system. The former announced *China’s Textile Enterprises’ Social Responsibility Management System, CSC9000T*, and the latter, Shanghai Bureau of China Banking

⁴ A survey carried out by China Youth Development Foundation indicated that in 10 million domestic enterprises there were only 100 thousands of them had donated for charitable activities, representing only 1%.

Regulatory Commission, has officially publicized the *Shanghai's Banking Industry: Guidelines for Financial Corporations' Social Responsibility*. No matter to what extent our corporations have recognized their corporate social responsibility is, promoting corporate social responsibility is now a common phenomenon in China.

For corporations, particularly Chinese private corporations whose average life-span is less than 3 years, while they all pay attention to sustainable development on the one hand, they must concern about impacts caused by their business decisions upon all members of society so as to shun unnecessary troublesome happenings during their long path of development on the other hand. A single negligence in some social responsibilities may cause them time-consuming lawsuits that not only inflict huge financial damage upon them but also blur seriously their public image. On the contrary, for a corporation that does well in fulfilling its social responsibility, easier than its competitors it can seek business partners and win recognitions from customers and from the general public. At the time Fuda positively undertook its social responsibility, it was building its good public image. Results are that its employees gain self-confidence and feel proud of Fuda and customers' recognitions bring along conveniences to its sales forces. For an example, after the story of "Sunshine Base" had broadcasted by Shanghai Television Station, the general public came to know more about Fuda, positively. Once, when a sales representative went to Anhui Magang (Group) Holding Co., Ltd to submit a tender, at first Magang knew very little about Fuda. But when they heard of the "Sunshine Base", a very profound and responsible image of Fuda impressed on their mind. And at last Fuda successfully won the job-order over. The author feels the need of clarifying that when Fuda initiated the "Sunshine Project", it had never expected to have such a good reward. This experience is the best testament to the fact that if a corporate can do well in undertaking its social responsibility, benefit not only goes to the community but to the corporation as well. With reference to lots of social responsibilities like supporting charity work, donating the community chest, and helping the disadvantaged, there is no minimum requirement set for corporations to do their parts. Still the author calls on all corporations to contribute a share, and also the owners and the management of corporations should put in action, to allow their wealth and souls to have sparks together. It is the author's wish that someday a charitable public library and an intermediate technical school can be set up, and upon retirement would donate all his personal wealth to do his part to build a harmonious society.