

Occasional Paper 6

ibe

Doing Business in China: An overview of ethical aspects

BY JUDITH IRWIN

Published by the Institute of Business Ethics

 Institute of
Business Ethics

Author **Judith Irwin** is Senior Researcher at the Institute of Business Ethics where she researches and writes on best practice on a range of business ethics topics, advises companies on embedding ethics in their organisations, and regularly engages in training and public speaking to raise awareness of the subject. Recent publications include 'Doing Business in South Africa: An overview of ethical aspects' (2011) and a 'Good Practice Guide to Ethics Ambassadors' (co-author, 2010).

Acknowledgements The author is grateful to those who took time to contribute their thoughts and experiences to the Paper, as well as those whose research we quote. In particular the IBE would like to thank:

Stephan Rothlin, Centre for International Business Ethics, Beijing; Duncan Levesley, China-Britain Business Council; Sophie Yang, Northrop Grumman Speery Marine Trading; Li Luo, Xavier University; Clare Pearson, Beijing and British Chamber of Commerce in China; and Andrew Halper, London.

The IBE thanks Accenture for its financial support of this publication.

The author welcomes comments and can be contacted at info@ibe.org.uk.

All rights reserved. To reproduce or transmit this book in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, please obtain prior permission in writing from the publisher.

Doing Business in China: An overview of ethical aspects

Price £10 ISBN 978-1-908534-02-6

© IBE www.ibe.org.uk

First published July 2012
by the Institute of Business Ethics
24 Greencoat Place
London SW1P 1BE

Registered Charity No. 1084014

The Institute's website (www.ibe.org.uk) provides information on IBE publications, events and other aspects of its work.

Contents

	Page
Introduction	4
1 Chinese Culture and the Business Context	5
2 Trends and Challenges in Business Ethics and Corporate Social Responsibility	11
Summary	19
Further Resources	20

Introduction

This Paper offers a synopsis of the business ethics climate within China and the challenges that a business seeking to operate with high ethical standards in the Chinese market might encounter.

The Paper is divided into two parts.

An overview of the operating environment for business in China is presented in **Part 1**. Awareness of the cultural characteristics and context for business will help a company to understand better employees' responses in the face of an ethical dilemma, the issues employees are most likely to encounter and the influence on their behaviour.

Part 2 considers current business ethics and corporate social responsibility trends and challenges in China. How mature is the field? What issues are ethics and responsibility programmes focusing on? How does the cultural diversity of the country and the operating context influence this?

The Paper ends with a list of **Further Resources** including organisations that are playing a prominent role in promoting ethical business practice in the country.

The information presented has been gathered from a range of sources including interviews with corporate ethics practitioners working in China and subject experts.

By 'China' or the 'PRC', we refer to the mainland of the People's Republic of China. Although Taiwan, Hong Kong and Macao share thousands of years of history, and fundamental cultural characteristics with the mainland, those three territories are governed differently and display some important cultural divergences from the mainland. Nevertheless, readers conducting business in those three territories may find some of the comments in this Paper applicable.

01

Chinese Culture and the Business Context

Cultural traits

Chinese society is heavily influenced by the traditional values associated with Confucianism which promotes a strict system of norms and propriety. This determines how a person should act within a community, with hierarchy a central theme. In addition, there is little separation between business and private life in China. These traditional values can have a significant influence on employees' behaviour in a corporate setting.

The Mandarin term for business ethics is 'shang de'. Those committed to ethical business practice are known as 'Ru Shang' or 'Confucianism Trader', and being so is traditionally thought to be a route to success.

The concepts of 'guanxi' and 'mianzi' are central to Chinese society and thus heavily influence business life. Guanxi is a deeply embedded system of relationships, personal connections, contacts and networks. The cultivation of guanxi can be thought of as a form of significant 'social capital' and is not something casually acquired by exchanging business cards or having a single meal together. Rather, relationships are formed over time and are based on trust and reciprocity. It is common in China for an employee to take contacts with them when switching jobs as the guanxi is with the individual, not the company. Trading competitive information among one's guanxi network may, in some cases, also be considered an acceptable practice.

Mianzi refers to the concept of 'face' – broadly defined as pride or self-respect, and its corollary – preservation of the self-respect of others. Mianzi is related to prestige and one's position in a hierarchy. Direct disagreement or confrontation with someone – such as a colleague or a person in a position of authority – may cause them to lose mianzi and is usually avoided. Thus, opinions can be difficult, but not impossible, to gather from employees because any proposal for improvement could cause their superior to 'lose face' by suggesting that they are in some way deficient. That said, some successful Chinese and foreign senior figures find that they can overcome this problem by taking particular care to solicit opinions up and down the hierarchy before they have enunciated their own views. Employees will, however, be concerned not to appear unintelligent to their colleagues, so some sensitivity must be applied.

Practices such as gift giving, token cash gifts ('red envelopes') at special occasions (e.g. the Spring Festival or the birth of a child) and invitations to family events are still prevalent in today's business environment and serve the important function of 'giving face' or honouring a potential business partner. Companies with strict policies on gifts and hospitality may find it difficult to uphold these and may need to take account of acceptable local practices where they do not actually challenge any of their core business principles.

Geert Hofstede's research, which compared the cultural traits of nationalities, provides a useful framework for understanding the characteristics of Chinese culture. Hofstede identified five 'cultural dimensions' by which he ranked nationalities (see Table 1).¹

¹ It should be noted that some aspects of Hofstede's theories and methodologies have been challenged by other scholars. Another influential contributor to the study of Chinese culture is the late Professor Lucian Pye, author of a number of influential works on Chinese social psychology and political culture.

Table 1 Hofstede's cultural dimensions – China's scores²

Cultural dimension	China	Definition
Power distance	High	The extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally.
Individualism	Low	Focuses on the degree to which the society reinforces individual or collective, achievement and interpersonal relationships.
Masculinity	High	The degree to which society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control, and power.
Uncertainty avoidance	Low	The level of tolerance for uncertainty and ambiguity within the society.
Long term orientation	High	Focuses on the degree to which society embraces persistence, has a sense of shame, orders relationships by status and observes this order.

China has a high **power distance** index, i.e. members of Chinese society believe that significant inequalities amongst people are acceptable. In a corporate setting, the subordinate-superior relationships tend to be polarised and there is no defence against power abuse by superiors other than the social expectation, grounded in Confucianism, that superiors are *supposed* to exercise their power with 'ren' or humanity, and with due regard to the importance of reciprocity of obligation, even within a hierarchical structure. Individuals in this hierarchical society tend to accept formal authority and are less likely to challenge their superiors in the workplace in comparison with cultures where power distance is low (e.g. the UK). That being said, the recent rise in grassroots Christianity is beginning to challenge inertia about inequality.

The issue addressed by the **individualism** dimension is whether people's self-image is defined in terms of 'I' or 'We'. In individualist societies, people are likely to look after themselves and their direct family only. In collectivist societies, people belong to 'in-groups' that take care of them in exchange for loyalty. China is a highly collectivist culture where people act in the interests of the group and not necessarily of themselves. In-group considerations can affect hiring and promotions in the workplace with closer in-groups (such as family or indeed anyone to whom one has a guanxi-related obligation) getting preferential treatment. In this cultural environment, it is not surprising that nepotism and cronyism are common.

² Geert Hofstede: <http://geert-hofstede.com/china.html>. Research originally conducted between 1967 and 1973.

China exhibits a high score on the **masculinity/femininity dimension** indicating that the society is driven by ‘masculine’ values such as competition, achievement and success, with success being defined by the winner/best in field. The need to ensure success (often, for the group and not oneself) is exemplified by the fact that many Chinese will sacrifice family and leisure priorities to work, and little importance is placed on leisure time. A low score on this dimension would indicate a ‘feminine’ society – one in which the dominant values in society are caring for others and quality of life.

China has a low score on **uncertainty avoidance**, indicating that the Chinese are comfortable with ambiguity. This is reflected in Chinese language in which there is space for much ambiguity and indeed, it is sometimes preferred. In a corporate setting this can be reflected in the lack of adherence to rules and regulations, and a preference for contracts which are somewhat imprecise and thus which may be interpreted flexibly to suit the actual situation; the emphasis is on facilitating the relationship while laws and contracts are of secondary importance.

China is a highly **long term oriented** society in which future rewards are sought through persistence and perseverance. Relationships are ordered by status and the order is observed. Investment tends to be focused on long term projects as opposed to short term which may bring quick returns. In a corporate setting, Chinese employees are likely to work hard in pursuit of rewards in the long run. However, as China has opened up its markets to foreign investors, there are an increasing number of examples of short termism with regard to investment horizons of Chinese businesses.

Economy and government

The People’s Republic of China (PRC) is the second biggest economy in the world behind the United States of America and has the largest population of any country at 1.3 billion people.³ Although still officially a Communist country, China’s economy has changed during the last quarter of a century from a centrally planned system that was largely closed to international trade, to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Some of the biggest companies in the world are found in China. Their names largely unknown in the West, some operating in over 50 countries, they control extraction, manufacturing, supply and distribution networks in many different industries.

The development of the private sector – led by an emerging class of entrepreneurs – has been crucial in this shift. In 1978, the first year of post-Cultural Revolution economic reforms in China, state-owned enterprises (SOEs) accounted for more than 90% of the country’s GDP; this has since fallen to about a third.⁴ However, boundaries between business and the State remain blurred and to further complicate matters, boundaries between the State and the Communist Party of China are also vague. Public officials may be managers in private enterprises yet the State may be the majority shareholder in a company and the Party organisation within the enterprise will exercise much more influence and power than the notional shareholder which is the State. This can make it difficult to distinguish a public official from an employee in the private sector.

³ National Bureau of Statistics of China, *2010 Census*. Available at: <http://www.stats.gov.cn/english/>

⁴ RSA Journal (Summer 2011) *Self-made in China*. Available at: <http://www.thersa.org/fellowship/journal/archive/summer-2011/features/self-made-in-china>

Economic development has been more rapid in coastal provinces than in the interior. By 2011 more than 250 million migrant workers and their dependents had relocated to urban areas to find work and there is a strong rural/urban divide in many cities.⁵ Shanghai's migrant population, for instance, soared from 9 million in 2000 to 23 million people in 2010.⁶

However, as younger generations have higher expectations of quality of life than their predecessors, there is some evidence that they are now questioning low pay and poor benefits and are less interested in physically demanding jobs such as construction and manufacturing. It is reported in PRC media that many are beginning to return to rural areas, although the movement of hundreds of millions from countryside to city is a tectonic shift which will not halt.⁷ Contributing to this trend are issues around the Chinese system of 'hukou' (a household registration system designed to manage population movements). Under Chinese law, everyone must be registered in their home town or village to be entitled to education, housing and welfare. Rural migrants are prohibited from changing their rural hukou to an urban one and thus must pay more for these services. Factories (a major source of employment for low skilled rural migrants) are meant to help workers without local hukou registration but, in order to keep their operating costs down, often fail to purchase proper employee insurance.⁸

Environmental degradation has been a significant side effect of migration and the growth of industry in China, causing serious air pollution, soil erosion, and water scarcity problems. The country continues to lose arable land both through soil erosion and economic development, increasing its dependencies on imported goods.

Looking ahead, the Chinese Government faces several economic development challenges:

- To sustain adequate job growth for tens of millions of workers laid off from SOEs. The loss of the 'iron rice bowl' (Chinese idiom referring to the system of guaranteed lifetime employment in state enterprises) has meant that, along with migrants, there are many new entrants to the private sector workforce;
- To reduce corruption and other economic crimes;
- To contain environmental damage;
- To address social strife related to the economy's rapid transformation and ageing population (a demographic consequence of the 'one child' policy that China implemented in 1979);
- To reduce economic inequality as the gap between the rich and the poor continues to grow (according to official figures the top 10 percent of urban Chinese earn about 23 times that of the poorest 10 percent);⁹
- To achieve a shift from an export-oriented economy towards one more weighted towards domestic consumption.

⁵ The World Fact Book, China. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

⁶ Deutsche Welle, 27th June 2012, *Unhappy Migrant Workers in China are a Growing Problem*. Available at: <http://www.dw.de/dw/article/0,,16053409,00.html>

⁷ China Daily USA, 3rd February 2012, *Return to Family Roots Leaves Employers with a Headache*. Available at: http://www.chinadaily.com.cn/usa/weekly/2012-02/03/content_14529478.htm

⁸ Deutsche Welle, op. cit.

⁹ Bloomberg Businessweek, 27th January 2011, *China's Growing Income Gap*. Available at: http://www.businessweek.com/magazine/content/11_06/b4214013648109.htm

Corporate governance framework

To date, the corporate governance framework in China has been weak owing to the legacy of a planned economy with substantial Party interference in the running of state-owned enterprises (SOEs). The lack of accountability and transparency has contributed to the problem of corruption and bribery in China. A 2011 survey by the American Chamber of Commerce in China of 318 US companies showed that there was significant dissatisfaction with corporate governance in China. Companies expressed concerns over inconsistency in regulatory interpretations or unclear laws (42%), corruption (30%) and national protectionism (28%).¹⁰

However, change is taking place, largely driven by the opening up of the markets to the international economy and the desire to attract foreign investment. The PRC National Audit Office, at the behest of the National People's Congress, has recently published the results of a major audit of state-owned agencies and banks in which 28 court cases involving fraud were uncovered during the audits.¹¹ These reports have been published in conjunction with the Central Government's current campaign to demonstrate that the problem of official corruption is being addressed.

Reform has generally drawn on continental European trends, with the institution of a 'supervisory board', as well as Anglo-Saxon models. Two salient examples of this are the *Guidelines on Independent Directors in Listed Companies* issued in August 2001 by the China Securities Regulatory Commission (CSRC) and the *Code of Corporate Governance* issued in 2002, also by the CSRC. This Code required listed firms to adopt best practice corporate governance structures, including adding independent directors to the board and separating the posts of CEO and chairperson. In the banking sector, the China Banking Regulatory Commission (CBRC) plays a key role in formulating supervisory rules and regulations governing the banking institutions. It is responsible for the administration of the supervisory boards of the major state-owned banking institutions and also offers an online 'whistleblowing' service.

Important changes have also recently taken place in the corporate governance of SOEs. Reforms have been concentrated mainly in the areas of the ownership function and the legal and regulatory framework for SOEs, and the introduction of a set of performance assessment measures for SOE board members and managers.

A further demonstration of China's commitment to reform is its signatory to the OECD (Organisation for Economic Co-operation and Development) *Principles on Corporate Governance*. China has also participated in the Asian Roundtable on Corporate Governance and is in dialogue with the OECD on *Guidelines on Corporate Governance of State-Owned Enterprises*. A 2011 OECD-China Policy Dialogue on Corporate Governance of listed companies in China, which looks at the institutional framework of corporate governance in China through the prism of the *OECD Principles of Corporate Governance*, concluded that corporate governance has "improved significantly since the Chinese stock market was created in 1990, with important achievements in establishing and developing the legal and regulatory framework."¹²

¹⁰ Bloomberg Businessweek, 2nd May 2012, *The Great Fall of China*. Available at: <http://www.businessweek.com/articles/2012-05-02/the-great-fall-of-china>

¹¹ China Law Blog, 25th January 2011, *China's Campaign Against Corruption*. Available at: http://www.chinalawblog.com/2011/01/chinas_campaign_against_corruption.html

¹² OECD (2011) *Governance of Listed Companies in China - Self-Assessment by the China Securities Regulatory Commission*. Available at: <http://www.oecd.org/dataoecd/47/10/48444985.pdf>

Enforcement of corporate governance regulations appears to be improving. The *Asian Corporate Governance Association 2010* ratings of corporate governance in 11 Asian countries indicate improved enforcement of corporate governance rules across most Asian markets, including China.¹³ Indications of improvement (as well as decline in other areas) can also be seen in the results of the World Bank's *Worldwide Governance Indicators for China* (see Table 2).¹⁴ The Indicators capture the performance of a country on six dimensions of governance.

Table 2 Worldwide Governance Indicators for China

Governance dimension	Percentile rank*	
	2010	2005
Voice and accountability	5.2	7.2
Political stability and absence of violence/terrorism	24.1	29.3
Government effectiveness	59.8	49.8
Regulatory quality	45.0	50.5
Rule of law	44.5	40.2
Control of corruption	32.5	31.7

*Percentile ranks indicate the percentage of countries worldwide that rate below the selected country. Higher values out of 100 thus indicate better governance ratings.

Looking to the future, some of the biggest challenges for corporate governance in China are promulgating and implementing clear legislation, putting in place dispute resolution mechanisms (e.g. in judicial courts) that are free from undue political interference and corruption and establishing boardrooms that are entirely independent from the Government.

¹³ Asian Corporate Governance Association, *Corporate Governance Watch 2010 – Corporate Governance in Asia*. Available at: <http://www.acga-asia.org/>

¹⁴ Worldwide Governance Indicators (WGI). Available at: <http://info.worldbank.org/governance/wgi/index.asp>

02

Trends and Challenges in Business Ethics and Corporate Social Responsibility

The modern concept of Corporate Social Responsibility (CSR) arrived in China some two decades ago when it was imposed on Chinese suppliers by Western companies importing from the country, in response to demands of the Western governments, Non-Governmental Organisations (NGOs) and consumers. Since then, the Chinese Government has embraced CSR as a tool to help address social and environmental issues, driving the corporate agenda to complement its own development goals.¹⁵ CSR is the most commonly used term in China to describe the collective notion of social, environmental and economic responsibilities of business.

Many Western investors have found that commitment to CSR – with the public benefits it brings – can be very helpful in winning local or central government officials over to supporting a corporate's investment objectives. Understanding that the Government will evaluate any CSR initiative in terms of its overarching goal of a 'harmonious society' is crucial to evaluating what is achievable in China.

However, there is much room for development when it comes to CSR in China. The Chinese Academy of Social Science's 2001 blue paper on CSR graded 300 of the top companies based in China with an average score of only 19.7 out of a possible 100 on a CSR index. The 300 firms include the top 100 from the state-owned, foreign-funded and private business sectors.¹⁶

Drivers

Key drivers for the rise in importance of CSR in China include globalisation, the growth in civil society organisations, social media, consumer pressure from a growing, educated, middle class population and Government objectives.

- As China has opened up its market to the world, Chinese companies have been exposed to international markets and in some cases, have had to work hard to meet international standards of responsibility in order to compete in the global playing field.
- Civil society organisations have grown dramatically; there are now more than 425,000, up from 387,000 two years ago.¹⁷ Some of these specialist organisations have been instrumental in drawing attention to business ethics issues in China. Organisations such as the Research Centre for Corporate Social Responsibility and The Chinese Academy of Social Sciences (see Further Resources) are publishing research and holding conferences on issues such as corporate governance, anti-bribery and corruption. Also, the local network of the UN Global Compact in China was launched in November 2011.¹⁸ The Network offers a framework to advance the Global Compact principles.

¹⁵ A comprehensive overview of CSR in China is provided in *Corporate Responsibility and Sustainable Economic Development in China: Implications for Business* by Zadek, S., Yu, K. and Forstater, M (March 2012) published by Asia US Chamber of Commerce.

¹⁶ China Daily, 11th November 2011, *Damage Limitation is Urgently Needed*. Available at: http://www.chinadaily.com.cn/opinion/2011-11/11/content_14076274.htm

¹⁷ Ethical Corporation, 4th February 2012, *China Briefing Part 3: Civil Society – The Land of the Gongo*. Available at: <http://www.ethicalcorp.com/stakeholder-engagement/china-briefing-part-3-civil-society-land-gongo>

¹⁸ Global Compact Network, China: <http://www.gcchina.org.cn/#>

- With over half a billion internet users, more than 805 million mobile phone users, and approximately 300 million micro-blogs (similar to Twitter),¹⁹ technology and social media have become key instruments enabling Chinese consumers to share their opinions and alert the Chinese public (particularly the young, educated, growing middle class) to the negative impacts of business on society and environment. Online anger, boycotts and citizen protests (often co-ordinated through the use of social media) have been effective in calling into question corporate behaviour – usually more so than Government pressure.
- Recent research by the Carbon Trust found that 83% of young people questioned in China said they would be more loyal to a brand if they could see it was reducing its carbon footprint and 88% of 18-25 year olds wanted their favourite brands to actively help reduce their carbon footprint (compared to 66% in the USA and UK). In addition, 60% of Chinese young adults who participated in the research said they would stop buying a product if its manufacturer refused to commit to measuring and reducing its carbon footprint.²⁰ These findings illustrate the extent of consumer pressure in China.
- Successive *Five Year Plans* and other socio-economic guidelines published by the Government such as the *Scientific Outlook on Development*²¹ have been a further key driver. Social development goals have defined the Central Government's growth expectations, which are then filtered down through various government agencies to businesses. They in turn have to place the meeting of those expectations at the heart of their business strategy; a strategy often determined with the active participation of the agencies in question (e.g. banks have been asked to open rural banking facilities in exchange for urban banking licences). See Box 1 for information on the latest *Five Year Plan*.

Box 1 China's 12th Five Year Plan (2011)²²

The *12th Five Year Development Plan*, launched in 2011, clearly suggests that sustainable development is a top priority for China. Alongside water scarcity, pollution, labour conditions, product safety and the need for improved governance and accountability, the Plan emphasises:

- Rebalancing the economy toward domestic consumption by becoming less dependent on external demand and investments.
- Refocusing attention on 'sustainable growth' rather than 'total growth' by investing in economic restructuring and promoting new emerging industries such as clean energy, biotechnology, and high-end manufacturing.
- Investing in a new model of 'harmonious socialist society' that focuses on providing disadvantaged groups and less-developed regions with social insurance schemes, health care, and education so that they also benefit from China's economic success. This has been a perennial problem, and the gap between 'haves' and 'have nots' has been increasing.

¹⁹ Harmony Foundation, 29th March 2012, *Corporate Social Responsibility in China*. Available at: <http://wp.me/p11QHZ-16> and BSR Insight, 10th August 2010, *Is Social Media Changing Chinese Civil Society?* Available at: <http://www.bsr.org/en/our-insights/bsr-insight-article/is-social-media-changing-chinese-civil-society>

²⁰ Carbon Trust, 25th May 2012, *Sustainability in a Competitive World - A New Carbon Order Emerges*. Available at: <http://www.carbontrust.com/news/2012/05/sustainability-in-a-competitive-world-a-new-carbon-order-emerges>

²¹ A socio-economic ideology initiated by President Hu Jintao, also general secretary of the CPC Central Committee. Hu's ideology highlights comprehensive, balanced and sustainable development, rather than a blind pursuit of gross domestic product (GDP) growth.

²² BSR Review, *Sustainability in the Chinese Context*. Available at: <http://www.bsr.org/en/our-insights/bsr-review-email/sustainability-in-the-chinese-context>

Other initiatives that have been driving CSR and which foreign companies are expected to comply with are outlined in Box 2.²³

Box 2 Chinese initiatives on CSR

- 2005: China CSR Association developed first ‘China CSR standard’ and released *China CSR Beijing Statement*.
- 2006: Chinese Company Law, Article 5 stated, “*in the course of doing business, a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to government and public supervision, and undertake social responsibility.*”
- 2006: Shenzhen Stock Exchange published *CSR Guidelines for Listed Companies*, requiring listed companies to include information about employee protection, environmental pollution, product quality, and community relationships in their CSR reports.
- 2008: State-owned Assets Supervision and Administration Commission of the State Council (SASAC), which supervises and manages state-owned assets of the enterprises under the supervision of the Central Government, announced the *Corporate Social Responsibility Guidelines for Central Level State-Owned Enterprises* (SOEs) and explicitly requested wide practice of CSR.
- 2008: China’s State Environmental Protection Administration (SPEA) issued the *Guideline for Green Security*.
- 2008: Shanghai Stock Exchange published *Environmental Information Disclosure Guidelines for Listed Companies*, requiring listed companies to include information about contributions on sustainable social development, environmental and ecological sustainability on top of sustainable economic development.
- 2008: the Chinese Academy of International Trade & Economic Cooperation (CAITEC) issued draft *Guidelines on Corporate Social Responsibility Compliance for Foreign Invested Enterprises* (CSRC).
- 2009: China Banking Association, a self-regulatory organisation of all banks in China issued *CSR Guidelines for Financial Institutions in China*. This Guideline recommended that the CSR reports should include economic responsibility, social responsibility, and environmental responsibility (CBA 2009).
- 2009: Chinese Academy of International Trade and Economic Cooperation (CAITEC) issued *Guidelines on Corporate Social Responsibility Compliance for Foreign Invested Enterprises*. This stresses the need for companies to consider social needs as well as profit when protecting intellectual property, actively pursuing research and development in collaboration with local universities, responding swiftly with help when a public emergency occurs, adopting energy saving technology and establishing reliable procedures to respond to environmental emergencies.

²³ Harmony Foundation, op. cit.

Ethical challenges

Some of the key ethical challenges that face companies seeking to implement a business ethics programme and operate with high ethical standards in China are discussed below.

Corruption

In Transparency International's (TI) *Corruption Perception Index 2011*²⁴, China is ranked 75th out of 185 countries. This has been a consistent score since 2008. Exploring this more deeply, the TI *Global Corruption Barometer 2010/2011*²⁵ found that 46% of the 1,000 Chinese respondents felt that the level of corruption in the Country had increased and just over a third considered the Government's actions ineffective in combating corruption. When respondents were asked "To what extent do you perceive the following institutions in this country to be affected by corruption?", business was seen as the most corrupt institution, closely followed by political bodies and public officials (see Table 3).

Table 3 Transparency International Global Corruption Barometer 2010/2011, China

Institution	Score*
Business	3.6
Political parties	3.4
Parliament	3.4
Police	3.4
Public officials	3.4
Media	3.3
Education	3.0
Judiciary	3.0
NGO	2.9
Religious bodies	2.8
Military	2.7

*1 = not at all corrupt, 5 = extremely corrupt

Whilst bribery is highly prevalent in all sectors in China, it is particularly common in sectors such as construction (driven by rapid economic development and massive urban expansion and the high number of government-funded construction projects), the extractive industry and textile manufacturing (falsification of factory audits is common). Other recent corruption scandals have focused on the NGO sector with NGO officials using donations to afford luxury lifestyles for themselves rather than the donations going to the causes they were intended for.²⁶

²⁴ Transparency International, *2011 Corruption Perception Index*. Available at: <http://cpi.transparency.org/cpi2011/>

²⁵ Transparency International, *2010/2011 Global Corruption Barometer*. Available at: http://archive.transparency.org/policy_research/surveys_indices/gcb/2010_11. The Barometer collects the general public's views on, and experiences of, corruption. It explores the general public's views about corruption levels in their country as well as their governments' efforts to fight corruption.

²⁶ China Daily, 27th August 2011, *Scandal Spate Deprives Charities of Donations*. Available at: http://europe.chinadaily.com.cn/china/2011-08/27/content_13202808.htm

This has resulted in caution by the public towards charitable organisations, and donations to charities have fallen from their 2008 high by as much as 50% according to the China Charity and Donation Information Centre.²⁷

In recent years, the Chinese Government has been making some headway in attempting to fight corruption. In 2010, the Communist Party issued a new code of ethics, in an attempt to control corruption among officials.²⁸ Amidst recent allegations of bribes paid by Chinese companies to foreign officials to obtain mining or oil licences in certain markets, the PRC National People's Congress passed a 2011 amendment of the PRC Criminal Law setting out a clear prohibition on the payment of bribes to “foreign officials” and “officials of international public organisations”.²⁹ It demonstrates the Government's willingness to combat corruption both in its own territory and overseas, as evidenced by the increased prosecution and punishment of high-profile offenders.³⁰

TI China have been very active in the combat against corruption in China. Some of their recent initiatives include:³¹

- Heading up the National Universities Integrity Research and Education Society to develop the *Integrity Curriculum* for students throughout the Country and to promote integrity culture in all universities;
- Increased public awareness around corruption in the construction industry. TI China has run a programme on promoting transparent procurement and strengthening corporate social responsibility. The Chapter has translated and adapted *Integrity Pacts* to reflect the specific needs of the system of state-owned enterprises in China. It organised capacity building workshops on transparency in public procurement, which were attended by China's five biggest construction companies as well as committees working on the Three Gorges Project and Beijing Olympics;
- Running training programmes for government officials. Participants are provided with working papers and examples of best practices from the international anti-corruption movement. As part of this programme, a student association on integrity research was established at Beijing University in 2005 – the first of its kind in China. The association aims to promote anti-corruption research in Chinese universities, provide policy guidance and develop anti-corruption curricula. It is currently working on developing anti-corruption curricula for courses in construction engineering, finance, banking and medicine.

It can be difficult for foreign-owned companies operating in China to compete against SOEs, or companies in which the State has a stake, on an even basis; common corruption risk areas include dealings with public officials, lack of separation of public officials from management in SOEs, lack of transparency when entering joint ventures with Chinese companies, and requirement to use agents. Facilitation payments, also known as ‘kickbacks’ or ‘backhanders’ are a common form of bribery in China.

²⁷ Ethical Corporation, op. cit.

²⁸ BBC News, 24th February 2010, *China Communists Get New Anti-Corruption Ethics Code*. Available at: <http://news.bbc.co.uk/1/hi/8533410.stm>

²⁹ Norton Rose, March 2011, *PRC Criminal Law to Tackle Bribery of Foreign Officials*. Available at: <http://www.nortonrose.com/knowledge/publications/35820/prc-criminal-law-to-tackle-bribery-of-foreign-officials>

³⁰ For instance, in 2007, the execution of Zheng Xiaoyu, former head of the PRC State Food and Drug Administration and in 2009, the execution of Li Peiying, former chairman of China's largest airport management company. More recently, in February 2011, Minister of Railways Liu Zhijun was removed from his post on accusations of corruption. In total, China punished 146,517 officials for corruption in 2010 – see footnote 29.

³¹ Transparency International, China: http://archive.transparency.org/regional_pages/asia_pacific/about/east_asia/china

It should be noted that under the UK Bribery Act (2010), which has extra-territorial reach, facilitation payments are an offence anywhere in the world for employees of any company which carries out any business in the UK, regardless of that company's country of origin.³²

Speaking up

Reflecting the Confucian values of loyalty to one's group, respect for superiors in a hierarchy, and avoiding loss of 'face', the willingness of Chinese to speak up or 'blow the whistle' on fellow employees if they become aware of unethical practice is low. In China, the concept of reporting misconduct, particularly through the use of anonymous helplines, can be equated with negative historical events such as the Cultural Revolution and employees often view reporting as an 'all risk, no reward' activity.³³

The need to speak up may be promoted by referring to traditional principles. Guy Dehn, Founder of Public Concern at Work (UK), notes that it may be helpful for corporate employers to explain the importance of raising concerns in Confucian terms: *"If you see broken glass on the floor in your house, you would take action to protect your family. That philosophy can also be translated to the workplace."*³⁴

Based on the experience of some companies, younger employees are increasingly demonstrating a willingness to use electronic or internet-based channels, with the use of appropriate anonymity devices.³⁵ Another sign, indicative of change, is the reported success of a helpline set up by the International Council of Toy Industries' *Caring, Awareness, Responsible, Ethical Programme* in conjunction with an independent Chinese NGO partner, for China's toy factory workers to speak out and receive help and advice about employment abuses.³⁶

Human rights

Human rights remains a controversial topic in China with a focus on issues such as labour standards in the supply chain, child labour, human trafficking, civil and political rights. High profile scandals have included the spate of suicides in the Foxconn factory in the Shenzhen province over poor factory working conditions in 2010-2012,³⁷ child labour among Nike suppliers in the 1990s and the arrest of human rights activists. Recent research by China Labour Watch found that working conditions were *"deplorable"* across Apple's Chinese suppliers; the key issues being excessive working hours, low wages, overcrowded/dirty dormitories, hazardous working conditions, inadequate trade unions, excessive use of agency labour, poor food and routine cheating of overtime pay.³⁸

The Chinese Government has said that human rights are improving. Some major manufacturers doing business in China have raised wages to address problems of increasing employee turnover and even suicides (e.g. Foxconn and Honda).³⁹

³² For more information on the UK Bribery Act see: <https://www.sfo.gov.uk/bribery--corruption/the-bribery-act.aspx>

³³ Tansey Martens, L. (2012) *Globalising a Business Ethics Programme*, Institute of Business Ethics, London. Available at: www.ibe.org.uk

³⁴ Ibid.

³⁵ Ibid.

³⁶ Ethical Performance, July 2012, *Chinese Toy Factory Workers Helpline Hailed a Success*. Available at: <http://www.ethicalperformance.com/news/article.php?articleID=7275>

³⁷ The Times, 14th February 2012, *Apple Sends in the Inspectors Amid Fears Over 'Sweatshops'*. Available at: <http://www.thetimes.co.uk/tto/business/article3318571.ece>

³⁸ The Independent, 29th June 2012, *Apple Staff in China Work in 'Deplorable' Conditions*. Available at: <http://www.independent.co.uk/news/world/asia/apple-staff-in-china-work-in-deplorable-conditions-7897227.html>

³⁹ Accenture, January 2011, *Wage Increases in China: Should Multinationals Rethink their Manufacturing and Sourcing Strategies?* Available at: http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture_Wage_Increases_in_China.pdf

The Chinese Government has introduced a regulatory framework to attempt to alleviate the problem of excessive overtime. According to Chinese labour law, companies unable to comply with the legal limitation on work hours for their employees may apply for a *Comprehensive Work Hour Calculation System*. This System allows companies to exceed legal work hour limits for any given day, week, or month during a defined period of time so long as the average working hours for that period (usually three months to a year) do not exceed the legal limit. However, it is often misused and its effectiveness is questionable.⁴⁰

In the international arena, China has signed and ratified a number of international human rights conventions (see Box 3). It has not, however, ratified the International Covenant on Civil and Political Rights (ICCPR) or the ILO Convention on Freedom of Association and the Right to Collective Bargaining and there has been a great deal of focus on the lack of freedom of speech with censorship across the media rife, and the inability to organise and to join trade unions in China is a persistent problem.

Box 3 **China's ratification of international human rights treaties**⁴¹

- Convention on the Rights of the Child
- Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
- Convention on the Elimination of All Forms of Discrimination Against Women
- Convention on the Elimination of Racial Discrimination (includes rural people, ethnic minorities, rural-urban migrants)
- International Covenant on Economic, Social and Cultural Rights
- International Covenant on Civil and Political Rights (signed but not yet ratified)

Discrimination

Discrimination against women in the workplace in China is a common problem. Few women are found in senior positions in Chinese companies, reflecting the 'masculine' orientation of the Chinese culture and the reluctance to speak up or 'cross' a male colleague. Sexual discrimination at work is not uncommon with junior female employees often finding it difficult to say 'no' to sexual advances and still maintain their jobs. Few Chinese businesswomen would consider it suitable to travel alone or with a male colleague; this limits their prospects for promotion in a country which relies on personal contacts to transact business. Also the male domain of karaoke clubs and bars to close deals alienates women. Formal reports or employment tribunals over sexual advances or gender discrimination are uncommon as this would lose mianzi for the employee and their family. Starting their own businesses can be a better option for women and this has resulted in a number of highly successful female entrepreneurs (e.g. the owner of Beijing Soho Developments).

Rural migrants vs. urban citizens and ethnic discrimination are also pertinent issues. Migrant workers are often considered inferior by their urban counterparts and endure poorer working conditions, lower wages, living conditions and longer hours. They often do not benefit from the protection of China's labour laws due to

⁴⁰ Verité, February 2012, *For Workers' Benefit: Solving Overtime Problems in Chinese Factories*. Available at: http://www.verite.org/sites/default/files/Chinese_Overtime_White_Paper.pdf

⁴¹ Human Rights in China, Briefing No. 1 2007, *China's Growing Prominence in the Multilateral Human Rights System*. Available at: www.hrichina.org/public/PDFs/CRF.1.2007/CRF-2007-1_Multilateral.pdf

a lack of knowledge, the high costs of litigation, a lack of confidence among workers to assert their rights and the widespread perception that migrant workers are somehow less deserving of these rights or that these rights do not apply to them.⁴² Research on migrant workers conducted by Tsinghua University showed that 30% of the 2,400 migrants living in urban areas interviewed, felt alienated from the urban societies where they worked.⁴³

Environmental degradation

China's cities have grown so quickly that the Country now has more urban centres than most Western nations. It is predicted that by 2020, China will have 400 cities with at least 250,000 middle-class inhabitants – and 50 of those cities will have more than 1 million middle-class inhabitants.⁴⁴ With such rapid growth, environmental degradation has become a real problem for China.

Since 2007 the Chinese Government has intensified efforts to improve environmental conditions, tying the performance evaluations of local officials to environmental targets, publishing a national climate change policy and establishing a high level leading group on climate change, headed by Premier Wen Jiabao. In addition to commitments set out in the most recent *Five Year Plan*, the Government has expressed their commitment to ensure that 30% of new construction in China will be energy efficient by 2020 and to add energy production capacity from sources other than coal and oil.⁴⁵ Most recently it began seven pilot carbon emissions trading schemes.⁴⁶ There are also certain specially designed provisions that provide taxation, credit and other policy incentives for environmental protection initiatives. For instance, the Income Tax Law provides that businesses engaged in approved environmental protection and water or energy conservation projects are entitled to income tax reductions or exemptions.⁴⁷ China has also introduced green lending guidelines for banks in order to encourage sustainable growth in the private sector.⁴⁸

Any corporates operating in China are expected to implement China's *Energy Savings and Emissions Reduction Policy* (introduced in 2006) and take proactive steps, such as adopting energy saving technology, establishing an environmental management system and reliable procedures to respond to environmental emergencies. Leading companies included in China's top 100 Green Companies are Alcoa, Lenovo and Bao.⁴⁹ Some Chinese companies have introduced incentives to encourage employees to come up with environmentally sound approaches in their work (for example, at Alibaba, an employee who has demonstrated a commitment to the environment may merit a better parking space!).⁵⁰

⁴² Ibid.

⁴³ English.Eastday.Com, 26th April 2012, *Migrant Workers Not Happy About Living in Shanghai*. Available at: <http://english.eastday.com/e/120426/u1a6514860.html>

⁴⁴ Toledo Free Press, 23rd February 2012, *What the West Doesn't Get About China*. Available at: <http://www.toledofreepress.com/2012/02/23/what-the-west-doesn%E2%80%99t-get-about-china/>

⁴⁵ SustainableBusiness.com, 5th July 2012, *China Makes Green Building Centrepiece of Efficiency Plan*. Available at: <http://www.sustainablebusiness.com/index.cfm/go/news.display/id/23683>

⁴⁶ Financial Times, 16th May 2012, *China Injects Vigour into Carbon Debate*. Available at: <http://www.ft.com/cms/s/0/9a7218c6-9e74-11e1-a767-00144feabd0.html#axzz20D212VJl>

⁴⁷ OECD, op. cit.

⁴⁸ Ethical Performance, May 2012, *Chinese State Steps in with 'Transformative' Move on Sustainability in Private Sector*. Available at: <http://www.ethicalperformance.com/news/article.php?articleID=7209>

⁴⁹ Business Wire, 7th May 2012, *Alcoa Named One of China's Top 100 Green Companies*. Available at: http://www.alcoa.com/global/en/news/news_detail.asp?pageID=20120507006500en&newsYear=2012

⁵⁰ Harvard Business Review, November 2011, *Instilling Values in a Youthful Chinese Workforce*. Available at: <http://hbr.org/web/extras/hbr-agenda-2011/jack-ma>

Summary

Business ethics and CSR in China are still maturing fields. Heavily influenced by the State and traditional Confucian values, there are high expectations on business to ensure that their ethics and CSR programmes complement the Government's long term strategy for social improvement as outlined in the Chinese Government's *Five Year Plan*.

Western companies trying to embed ethical values into business practice will need to consider the particular cultural characteristics and Confucian influences on employees' behaviour. What is considered unacceptable practice in a Western context because core principles would be violated, may be acceptable in another because those core principles would not be violated – e.g. monetary gift giving. Staff will likely be reluctant to speak up against colleagues (particularly their superiors) or use a reporting hotline as they are taught unquestioning respect for authority and loyalty to one's group. When training staff, the group size of employees should be small and of the same rank, as the presence of managers in an otherwise non-management group may inhibit employees to be frank and open in their discussion.

Traditional, philosophical concepts contribute positively to business ethics (e.g. through the emphasis on trustworthiness) and can be integrated into the ethics programme content. Companies will have to understand the roles that personal connections (*guanxi*) and 'face' or respect (*mianzi*) play by helping employees understand how to manage business relationships appropriately.⁵¹ With the advent of the UK Bribery Act (2010) and extraterritorial reach that it has, it is important for companies entering the Chinese market to bear these cultural traits in mind when rolling out an ethics programme and to provide guidance and training accordingly.

Whilst China has some way to go in developing a robust corporate governance framework and universal rule of law, the pace of change in China is fast and the scale of its ambition in areas such as corporate governance, clean energy, resource efficiency, anti-corruption and combating environmental degradation is growing.

⁵¹ Tansey Martens, L, op. cit.

Further Resources

Asian Corporate Governance Association

www.acga-asia.org

An independent, non-profit membership organisation that works with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.

Association for International Business Ethics, Hong Kong

www.aibethics.org/html/eng/index.html

The Association seeks to promote, support and offer education in ethical business practices to business people and society at large.

Beijing Ethics Network (BEN)

Contact: clare.pearson@dlapiper.com

A Group of MNC, Media, Government and NGO professionals in Beijing, working to improve the ethical operation of their organisations.

Centre for Applied Ethics, Hong Kong Baptist University

www.cae.hkbu.edu.hk

The Centre aims to stimulate critical thinking about fundamental ethical concerns. It conducts research which covers a range of issues, including applied business ethics.

Centre for International Business Ethics (CIBE)

www.cibe.org.cn/en/

CIBE is a non-governmental organisation located in Beijing, China and hosted by the University of International Business and Economics.

Charitarian

www.charitarian.org / www.charitarian.com.cn

Supports and advises companies on the development of social responsibility and civil society in China.

CSR Asia

www.csr-asia.com

CSR Asia is the leading provider of information, training, research and consultancy services on sustainable business practices in Asia.

Research Centre for Corporate Social Responsibility, Chinese Academy of Social Sciences

www.cass-csr.org

Transparency International – China

http://archive.transparency.org/regional_pages/asia_pacific/about/east_asia/china

The Chinese chapter of the international non-profit organisation Transparency International that is dedicated to fighting corruption.



The Institute of Business Ethics

The IBE was established in 1986 to encourage high standards of business behaviour based on ethical values.

Our vision To lead the dissemination of knowledge and good practice in business ethics.

What we do We raise public awareness of the importance of doing business ethically, and collaborate with other UK and international organisations with interests and expertise in business ethics.

We help organisations to strengthen their ethics culture and encourage high standards of business behaviour based on ethical values. We assist in the development, implementation and embedding of effective and relevant ethics and corporate responsibility policies and programmes. We help organisations to provide guidance to staff and build relationships of trust with their principal stakeholders.

We achieve this by

- Offering practical and confidential advice on ethical issues, policy, implementation, support systems and codes of ethics
- Delivering training in business ethics for board members, staff and employees
- Undertaking research and surveys into good practice and ethical business conduct
- Publishing practical reports to help identify solutions to business dilemmas
- Providing a neutral forum for debating current issues and meetings to facilitate the sharing of good practice
- Supporting business education in the delivery of business ethics in the curriculum
- Offering the media and others informed opinion on current issues and good practice.

The IBE is a charity based in London; its horizons are international as it works with global corporations based in the UK and overseas. Our work is supported by donations from corporate and individual subscribers.

The IBE's charity number is 1084014.



Institute of
Business Ethics

All rights reserved. To reproduce or transmit this book in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system, please obtain prior permission in writing from the publisher.

Designed & produced by Navigate, Petersfield

Price £10 ISBN 978-1-908534-02-6

© IBE www.ibe.org.uk

First published July 2012
by the Institute of Business Ethics
24 Greencoat Place
London SW1P 1BE
Registered Charity No. 1084014

Doing Business in China: An overview of ethical aspects

This IBE Paper offers a synopsis of the business ethics climate in China. It explores the operating environment for business and considers the cultural characteristics which underpin this. It also looks at current business ethics and corporate social responsibility trends in the country and identifies the key ethical challenges that a business seeking to operate with high ethical standards in the Chinese market might encounter.