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DIPLOMA THESIS

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DIPLOMA THESIS

CORPORATE SOCIAL RESPONSIBILITY IN CHINA

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DECLARATION

I, Maja Pahor, declare that I am the author of this diploma thesis, which I have written under the mentorship of Dr. Jaklič Marko and that I allow its publication on the faculty web pages.

In Ljubljana, 20th of August 2009

Signature_____

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INTRODUCTION

Today, there is an ongoing demand for the ever-cheaper products that is forcing companies to find innovative ways to cut costs. One way often used by multinational companies is to outsource noncore processes. More and more organizations are tempted to outsource its manufacturing processes offshore because when compared to their own countries, certain nations have vast and easily accessible resources that can be exploited to gain competitive advantage. Many developing countries are attracting business organizations from undeveloped countries because they are providing services at economically cheap prices in comparison to developed countries. One of them is China, which will also be the focus of this diploma thesis.

China is a convenient place to outsource manufacturing because of its huge labor pool, lower cost for land, generous government incentives, a stable political system, good infrastructure and frequent departures by container ships (Harney, 2008a, p.8-9). It is also very convenient because of its prices of export products. Companies in China make everything from basic consumer goods to high-tech products while continuously undercutting prices. Chinese manufacturers are known as having very low prices that have stayed low since 2003. Now they are known simply as the China price (Harney, 2008a, p.2-3).

I have chosen China as one of the developing countries since Chinese exports have escalated in the last decade, making China the world's third-largest exporter after European Union and Germany. China exports accounted for \$ 1.465 trillion in 2008 (The World's Fact Book, 2009). Furthermore, Chinese exports are a hot topic in international arena. The conditions and operations of Chinese export factories are under constant scrutiny. Since numerous product scandals occurred in the last years, the whole world is watching them through a magnifying glass. Thus we can find numerous articles and books that are analyzing and discussing ethical behavior of Chinese export factories.

Nowadays, consumers are becoming more interested in the offshore operations of multinational companies. The overall awareness in regard to corporate social responsibility has significantly increased in the past decade. Accordingly, academics have turned their focus to Chinese export factories, which have caught the public attention. Most articles describe conditions in developing countries, such as China, as poor compared to operations in developed countries.

The main purpose of the diploma thesis is to analyze the working and the operational conditions in Chinese export factories that are located in Guangdong province. To fulfill the purpose of this paper the following questions will be answered: "Why Chinese export factories act unethical?", "How do factories conceal their unethical behavior?" and "What should be done to improve the conditions?"

The idea for the topic of the diploma thesis came from an article written by Power C. titled *Manufacturing: The Burden of Good Intentions*. The author poses a question of why companies in developing countries find it hard to act ethically. The finger is pointed at multinational companies that have in pursuit for lower prices outsourced production to developing countries. They demand cheap products that need to be manufactured quickly and in compliance with local labor law and codes of ethics. In short, the article presents the conditions faced by export factories in developing countries.

To meet my objectives I have employed exploratory and descriptive research strategies. I have reanalyzed data that has already been collected for some other purposes. This type of data, also known as secondary data, was my main source of information in answering my research questions and addressing my objectives. I have acquired most of the analyzed secondary data on the database ProQuest that offers a variety of historical newspapers, dissertations and uniquely relevant resources. Furthermore, some of the information was found on the internet and data in hard copies were collected from the library at the University of Economics. The database and the library are considered as credible sources compared to the data collected on the internet. Information from the internet is new and up to date however, its credibility is questionable. The disadvantage of credibility of information found on the internet has been minimized by carefully evaluating the data used. Another disadvantage of secondary data is that the information was collected for a specific purpose that may differ from my research question; however I have found some articles that address them. Furthermore, it is important to point out that most authors of the analyzed secondary data come from Western countries and do not have Chinese origins. Thus their perception of Chinese culture and values is limited. It would be more appropriate to analyze articles and books written by authors that come from China but this type of data, written or translated in to English, is very difficult to find.

The diploma thesis is divided into two chapters. Firstly, a conceptual review of Corporate Social Responsibility (in the following CSR) is presented. The chapter includes a definition of the concept of CSR and business ethics, followed by a presentation of basic elements and drivers of CSR. For a better understanding of the concept, a theoretical framework for CSR is presented, followed by a discussion about negative and positive sides of CSR. Then we look into ways to improve CSR in business and what is in store for the future of CSR. Following is the theoretical part of the thesis. I investigated the situation in China and shortly described it. In the following, the country's regulations are presented. The next chapter presents specifics of corporate social responsibility in China; it reveals the reasons for unethical behavior of Chinese factories and the way factories hide their unethical behavior and solutions on how to improve the situation of corporate social responsibility in China. Finally, the main findings are presented.

1 CORPORATE SOCIAL RESPONSIBILITY

Organizations are not completely independent from their environment; they operate in a social frame and are influenced by the community in which they operate. There is an evident link between a business and its environment; it shows the demand for corporate social responsibility.

This chapter will focus on the theoretical outline of the concept of corporate social responsibility and business ethics. Firstly, a definition of CSR and business ethics is presented followed by an introduction of basic elements and CSR drivers. For better understanding of the concept of CSR a theoretical model is explained. Subsequently, the debate about CSR clarifies strong arguments on both sides; the negative and the positive. After that I will examine how to improve CSR in business and finally discuss what can be expected in the future of CSR.

1.1 DEFINITION OF CORPORATE SOCIAL RESPONSIBILITY

The concept of corporate social responsibility has evolved over history and therefore we can find different definitions by different authors. In the early views, CSR was referred to as a social responsibility and one of the first authors to define it was Howard R. Bowen. According to Bowen, social responsibility is an obligation of businessmen to make decisions, pursue policies, or to act according to objectives and values of our society (Bowen, 1953; in Carroll, 1999, p.269).

A decade later the phrase “corporate social responsibility” came to common use. The period of 1960s marked an important development in attempts to formalize the concept of CSR (Carroll, 1999, p. 270). One of the main authors of this decade was Davis Keith, who presented his own “Iron Law of Responsibility”, which apprehended that social responsibility of businessmen need to be proportionate with their social power (Davis, 1960; in Carroll, 1999, p. 271). In a more elaborate definition by Davis and Blomstrom (in Carroll, 1999, p. 272), CSR is defined as a commitment of businessmen to consider the impact of their measures on the whole social system. The authors emphasize that businessmen should consider the needs and interests of others who may be influenced by their actions. Businessmen should take into consideration the interest of the stakeholders. In this manner, decision makers look beyond their firm’s narrow economic and technical interests.

In 1971, another important contribution in defining CSR came from Committee for Economic Development (CED), which described CSR as using three concentric circles. The inner circle comprehends the fundamental responsibilities for the efficient realization of the economic function. The intermediate circle takes into consideration the changing social values and the outer circle outlines newly emerging and still unstructured responsibilities (Committee for Economic Development, 1971; in Carroll, 1999, p. 275).

Popular among academic reviewers is the definition of CSR, written by Archie Carroll (Robins, 2005, p.97). According to Carroll (1991, p.40), CSR takes into consideration the economic, legal, ethical and philanthropic expectations that society has of organizations at a given point in time. Furthermore, the author integrated the four elements into a hierarchical pyramid, which he named the Pyramid of Corporate Social Responsibility. Components in the pyramid are in constant but dynamic tension with each other, however together they form a whole. The fundamental component is the economic responsibility of being profitable, followed by legal requirement to obey the law, to the ethical responsibility to operate ethically and finally the obligation to be a good corporate citizen through philanthropy (Carroll, 1991, p.40-43). Another acclaimed economist Andrew Kenneth (1989; in Robins, 2005, p.9) defined CSR as “sensitivity to the social costs of economic activity and to the opportunity to focus corporate power on objectives that are possible, but sometimes less economically attractive than socially desirable”. In the definition he considers a company as a morally and ethically responsible entity. His definition raises a question of justification of addressing social and environmental issues when there is no legal or financial reason; the question still being discussed among academics today.

Since CSR is a global concept it is of great importance to describe the definition of CSR from a worldwide point of view. The Journal of Corporate Citizenship published a special issue on CSR in Asia, in which all the papers cooperatively acknowledge there is no universal principle or template for CSR worldwide (Robinson, 2005, p. 102). The papers pointed out that it is important to consider cultural differences as well as company’s specific characteristics when defining programs and policies in CSR. If we look at the definition of CSR from Asia’s point of view, CSR is a company’s obligation to work in an economically, socially and environmentally sustainable manner and at the same time balancing the interest of diverse stakeholders (CSR Asia, 2009). Similar definition is that of the European commission that defines CSR as voluntary action of companies to incorporate social and environmental concern in their business operations and in their relations with their stakeholders (Silberhorn & Warren, 2007, p.2).

After going through various definitions of CSR given by different authors and institutions, we can assess that CSR differs from culture to culture, nation to nation, industry to industry and it changes over time. In order to define what corporate social responsibility means to the company, it is required to connect with its stakeholders and take into account their needs and wants. Universally, CSR is the way in which organizations incorporate social and environmental concerns for what is best for the whole social system.

1.2 BUSINESS ETHICS

The concept of ethics originates from the Greek word *ethicos* and it means moral, natural. Ethics as a philosophical discipline emerged with the origin of philosophy in Greece and studies goals as well as moral intentions. It is a lesson of morality and it researches the standpoint of natural good and evil, as well as it discusses when the human behavior is in accordance with the appointed idea of good. Ethics is a philosophy of morality (Jaklič, 2005, p.282). Another definition of ethics given by Frederick, Davis and Post (1988, p. 52) describes ethics as a set of rules that tell us when our behavior is approved and when it is unacceptable and considered wrong. According to them it deals with basic human relationships and is a general human trait. Everywhere people require rules to govern their conduct and rules that tell them whether their actions are right or wrong, moral or immoral, approved or disapproved.

Business ethics are not a special set of rules but are the application of universal ethical rules to business activities (Frederick et al., 1988, p. 52). Accordingly we can state that business ethics are the study of good and evil, right and wrong, acceptable and unacceptable behavior in business. Therefore, the business world should not invent new criteria of what is right and wrong. Ethical problems in business in most cases originate from conflict of interest between primary and secondary stakeholders as well as the conflicts that arise inside of each group (Jaklič, 200, p. 283). These problems appear in concrete operations and are shown, for example, in receiving bribery, invading the employee's privacy, relationship between politic and government, and so on. Most of the ethical problems in business are resolved through the application of clear procedures (Steiner & Steiner, 2000, p. 202). Ordinarily, ethical rules that relate to business support truth-telling, integrity, protection of human and animal life and rights, following the law, and operations in compliance with rules adopted by society to achieve fairness for citizens.

When we place the definition of business ethics in the context of the concept of CSR, we notice that the two concepts are overlapping. Both deal with the welfare of its stakeholders. In practice, the concept of CSR is in many cases equalized with the concept of business ethics. The two are used as the synonym, although academics differentiate them in their models and theories. For the purpose of the thesis we will assume that the two concepts are the same, since many of the literature used to write the practical part of the diploma do not precisely distinguish them. However, as you will read in the following, CSR represents a wider view of ethics. According to the three-domain model of CSR, ethics represent one of the three main responsibilities constructing CSR.

1.3 BASIC ELEMENTS OF CORPORATE SOCIAL RESPONSIBILITY

Steiner and Steiner (2000, p.129-131) identify three main elements of corporate social responsibility. The first element considers measures of the company taken in response to the market forces. A company is socially responsible when it acts in response to the marketplace. Critics believe that some businesses, such as gambling, defense, tobacco, animal agriculture, and alcohol, cannot be socially responsible no matter how well they respond to the marketplace. However, these beliefs do not overthrow the general rule that the greatest test of responsibility comes from normal market operations.

The second element comprises obligatory social programs, which are required by government regulations or by agreements negotiated by stakeholders. The size of this element has grown over the years, as a result of accumulating regulations (Steiner & Steiner, 2000, p.130). This element will be the focus of the diploma thesis, since multinational companies in pursuit for CSR implement codes of ethics that are mainly based on local laws and regulations.

The third element includes voluntary social programs that comprise three zones of measures. The first zone consists of voluntary programs or actions that go with or go beyond regulations. These programs are called “legal plus” because they go beyond the requirements of government regulations, such as work safety or pollution control. In the second zone are voluntary programs that act according to a national consensus, for example, contributing to charity. The third zone includes measures taken in areas where there is no public concordance, for instance, actions taken to promote discussions about controversial issues, such as AIDS (Steiner & Steiner, 2000, p.131).

On the other hand, Richard Welford (2004, p. 31-36) analyses the elements of CSR in more depth and identifies 20 elements of CSR. He arranged them in three main groups, which are internal aspects, external aspects, accountability and citizenship.

The internal aspect considers human rights issues in the company and Welford (2004, p. 34) lists the following elements:

- written policies on non-discrimination in the workplace,
- equal opportunity statement and implementation plans,
- statement on normal working hours, maximum overtime and fair-wage structure,
- staff development, in-house education and professional training
- the right of freedom of association, collective bargaining and complaints procedures
- the protection of human rights within the company's own operations.

The second group, external aspect, takes into consideration the relevant external factors of the human rights issue. These elements include external characteristics of the normal operation of the company, which are significant to the supply chain management. This group will be the main focus of this paper. The author (Welford, 2004, p. 34-35) points out the following factors:

- policy on labor standards adopted by suppliers in developing countries
- policy on restriction on the use of child labor by suppliers
- commitment to the protection of human rights in the company's sphere of influence
- inspection of suppliers' facilities for health, safety and environmental aspects
- commitment to local community protection and engagement
- policy on responding to the stakeholders, including procedures for the solution of complaints
- policies on the protection of indigenous populations and their rights
- code of ethics (including bribery and corruption)

The third group addresses the accountability and transparency that are an important aspect of CSR. According to Welford (2004, p. 35) accountability issues address the following two elements; commitment to report on corporate social responsibility and/or sustainable development, and policies and procedures for engaging a wide range of stakeholders in two-way dialogue.

And finally, the elements of citizenship, which are less rooted in formal codes of conduct, and observe the concept of citizenship in the framework of the business organization. The group consists of the last three elements, which are a direct support for initiatives related to third-party social and sustainable development, educational programs for the promotion of corporate citizenship, and external campaign programs for raising social and sustainable development issues (Welford, 2004, p. 36).

1.4 DRIVERS OF CORPORATE SOCIAL RESPONSIBILITY

According to Jane Nelson (2006) there are seven key drivers that have influenced the growth in CSR over the past decade:

1. The first driver is the increase of the private sector, which has grown as a result of globalization, market liberalization, privatization, and technological innovation. The number of multinational company has drastically risen in the last decade, thus intensifying the influence and the reach of the private sector.
2. The second driver concerns the consumers who have lost trust in corporations, due to too many ethical scandals over the recent years, such as the milk scandal in China. Consequently, corporate leaders have to build and react on consumer trust.

3. The third driver is the increase in nongovernment organizations, campaigning groups and activist organizations. These organizations have high communication power and connectivity provided by the internet, which enables them to outline and highlight corporate misdeeds, as well as raising public awareness.
4. Additional driver, which is interrelated with the other drivers, is the increase in shareholders activism. Formerly shareholders had a more passive role, however this has changed and today they play an essential role in financial market.
5. The fifth driver is a consequent of a government gap, which is a result of financial and capacity limits of the public sector when dealing with complex government issues. These gaps are especially apparent in developing countries, since they have weak governance and in some cases corruption. Therefore, for organizations operating in these economies, the pressure to fill these gaps is increasing. The pressure is executed by the public, which has higher expectations of organizations, due to shifting priorities.
6. The sixth driver is the increase in significance of intangible assets. There is a trend in the growth of consumer awareness. Accordingly, these have led to the growth of importance of corporate reputation, value, stakeholder relationship and innovation. Corporate leaders have realized that the reputation is important and they need to do anything to protect it.
7. Finally, the seventh driver is derived from global challenges, which affect the whole world and not just one nation. AIDS is an example of a global challenge/issue, which affects the whole world and cannot be addressed only by one nation or one country. Since the private sector has global reach, influence and resources, shareholders and governments expect them to address these global issues.

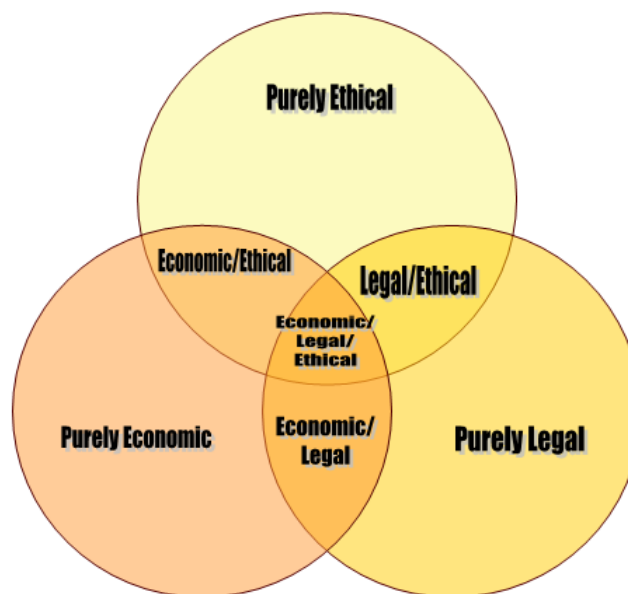
1.5 THEORETICAL FRAMEWORK FOR CORPORATE SOCIAL RESPONSIBILITY

One of the first and most famous models of CSR is the Carroll's pyramid. The framework of the model suggests a hierarchy of responsibilities, with economic at the base, followed by legal, ethical and philanthropic responsibilities at the top. Graphically it is presented as a pyramid, which is one of the limitations of this model, since the shape of the model could lead to misinterpretation of the priorities of the four responsibilities. One could conclude that the responsibility at the top of the pyramid, namely philanthropic responsibility, is the most important one. However, Carroll's intention was to conceptualize the responsibilities at the base of the pyramid as those of the highest ranking and those at the top as less important. Additional limitation is the use of philanthropic responsibility as a separate domain, since it is not considered as a responsibility due to its voluntary nature. Another critique of the model is

a partial definition of the four responsibilities, as well as the fact that it does not capture the relating effect of the domains (Schwartz & Carroll, 2003, g. 504-508).

To facilitate the limitations of the Carroll's pyramid a new model was developed by Schwartz & Carroll (2003 p. 508) called the three-domain model of CSR (refer to Figure 1). The model consists of three main responsibilities: economical, legal and ethical. The domains are represented in a Venn diagram format, which emphasizes the overlapping nature of the domains and consequently forms seven categories in which CSR may be studied and illustrated.

Figure 1: The Three-Domain Model of Corporate Social Responsibility



Source: S. M. Schwartz, & B. A Carroll, Corporate Social Responsibility: A Three-Domain Approach, 2003, p. 509.

The purely **economic domain** includes actions, which are based entirely on economic motives. These are the measures that have economic benefit and are illegal and unethical (Schwartz & Carroll, 2003, p. 513). An example of such company is a Chinese export factory that falsifies documents in order to cover unethical behavior and make profit.

Second domain is the **purely legal domain** that encompasses those actions that consider the legal system and do not have any economical benefit. Companies act in accordance with the law and not because of economic reasons (Schwartz & Carroll, 2003, p. 515). An example of these kinds of actions is placing warnings on tobacco products. Tobacco manufactures are obeying the law by placing the warnings but do not have any economical benefit from this action, moreover, they have additional costs associated with the warnings.

Thirdly, the **purely ethical domain** covers actions that have no economic or legal implications. These actions are carried out because they are measured to be ethically based on at least one moral principle, even though they do not have any economical benefits. The three-domain model identifies three moral principals; the conventions, deontological and consequential. The standard of conventions is defined as those norms, which have been accepted by the organization, the industry or the society as obligatory for an appropriate performance of business. Codes of ethics fall under this standard, since they are a set of principles of conduct accepted by the organization and the industry as an essential way to assure ethical conduct. The second principal, deontological principal, is defined as representing those activities which reflect a consideration of one's duty or obligation. Finally, the consequential standard focuses on results or consequences. Accordingly, the firm acts ethically when the actions are intended to produce the greatest net benefit for society. According to the model, activities that are immoral in nature, i.e. activities that take place despite an awareness that the action conflicts with certain moral principles, or activities that are only intended to produce a net benefit for the corporation and not for affected stakeholders, are considered unethical and would fall outside the ethical domain. Few corporate actions are classified into this category, since many actions that are regarded as ethical have a long term, indirect economic benefit (Schwartz & Carroll, 2003, p. 513- 515). An example of such company is Johnson & Johnson that has in 1982 blocked the sales of millions of bottles of Tylenol after it was informed that several people had died because of it. The company acted in this manner despite facing significant economic loss.

Continuing on to the overlapping domains; **economic/ethical domain** incorporates actions that are ethical and at the same time economical but are not based on a legal system. These actions are derived from the concept "good ethics is good business". It is important to point out that in order for an action to be considered ethical, it has to go beyond rational egoistic concerns and has to be based on one of the moral principles (Schwartz & Carroll, 2003, p. 515). The Body Shop is an example of a company that acts economically as well as ethically. Their option of refilling their packing is an example of this type of action. By offering this service, they are lowering costs of packing their products and at the same time reducing environmental pollution.

The second overlapping domain or the fifth area is the **economical/legal domain** that includes actions that are economical as well as legal and are at the same time considered unethical. These actions are very uncommon, since actions that are based on the apprehension of the legal system are in most cases also considered ethical (Schwartz & Carroll, 2003, p. 516). An example of such action is the outsourcing of production line to the third world countries, where there are lower environmental, work safety and product safety standards.

The sixth domain is the **legal/ethical domain**, which considers actions that are ethical and are at the same time based on the concern for the legal system. Furthermore, these actions do not have any economical benefit. Hardly any actions will fall into this category, since actions that

are legal and ethical at the same time, often generate indirect economic benefit (Schwartz & Carroll, 2003, p. 517).

Finally, the seventh domain combines all three areas; the **economical/legal/ethical**. In this category corporate actions are simultaneously motivated by economical benefits, the legal system and ethical principles. It lies in the center of the model and represents the category where firms should seek to operate whenever possible. Procter & Gamble's decision to withdraw its Rely tampons from the stores, because it may cause toxic shocks, could be classified as an economical, legal and ethical action (Schwartz & Carroll, 2003, p. 518).

The three-domain model is an upgrade of Carroll's pyramid. The Venn diagram eliminates any misconceptions of a hierarchical structure and a more in-depth definition of each domain presents a more complete framework, which enables to better categorize corporate activities. The main limitation of a three-domain model is that it is hard to implement into practice, due to the fact it is difficult to accurately categorize corporations and their activities within CSR domains. However, the model improves the understanding of the relationship between business and society as well as the relationship between the three domains; economics, law and ethics (Schwartz & Carroll, 2003, p. 525).

1.6 ARGUMENTS FOR AND AGAINST CORPORATE SOCIAL RESPONSIBILITY

There are many convincing arguments for and against corporate social responsibility. Many argue that companies will gain by implementing CSR; however there are others that have doubt in CSR and are convinced that it will decrease company's competitive position. Nevertheless, most companies rationally consider CSR and what they can gain from it.

CSR provides a number of benefits for the company and most businessmen advocate in favor of it. They are supported by social activists, who want to protect the environment and the customers, preserve protection and health of employees, prevent discrimination in the work place and protect the elderly. Additional supporters against harmful and reckless actions of companies are the government officials.

One of the most vigorous arguments for CSR, are the positive associations it has with the company's performance (Ruf, Muralidhar, Brown, Janney & Paul 2001, p. 143). Social incentives by the companies assure increased long run profit (Frederick, Davis & Post, 1988, p.37). According to Brown and Dacin (1997, p. 79 -80), CSR enhances customers' motivation to purchase the company's products as well as it improves product evolution through an overall development of the organization. Consumers appear to prefer products made by the companies that are socially and environmentally responsible. Walker Information survey showed that 70 percent of the customers would not buy products from the companies that are not socially responsible, despite the price (Joyner & Payne, 2002, p. 298). Additionally, the firms that are considered socially responsible can build their reputation, since CSR creates a positive corporate image (Smith & Stodghill, 1994, p. 64).

From a human resources point of view, CSR helps to recruit and retain high quality employees (Joyner & Payne, 2002, p. 298). This statement is supported by Walker Information survey done among employees. The study reveals that 86 percent of respondents, which felt their firm's ethics were positive, were strongly devoted to their organization. On the other hand, the other 14 percent were similarly committed, regardless the fact they did not consider the firm's ethics to be high. The important fact is that 41 percent of all participants in a research pointed out that the company's ethics policy would directly influence their selection of the employer.

Organizations that are socially responsible can divert future government regulations and interventions (Carroll & Buchholtz, 2000, p. 40). Governments usually intervene with complex and sometimes expensive regulations in order to fill the gap that arises between the businesses and the law. If organizations act socially responsible and establish their own standards and regulations, they can discourage the new government regulations. Another argument for CSR is lower cost of operations, since it is less expensive to be proactive as opposed to reacting to problems after they have already progressed (Carroll & Buchholtz, 2000, p. 41). It is much more costly to repair the damage already made in the environment than to prevent one.

Furthermore, businesses need to react to expectations of the society in order to survive in the long run. It is in firm's long term interest to be socially responsible (Carroll & Buchholtz, 2000, p. 40). Many critics are convinced that organizations caused many social problems and are therefore obligated to correct them. An example is the discrimination between genders, which many think was created by organizations and is therefore their duty to eradicate it. Porter and Kramer (2006, p.80) point out another interesting argument in support of CSR. They argue that CSR can be a resource of innovation and competitive advantage. All these arguments in favor of CSR emphasize the positive influences social responsible actions have on the organization and the community, because CSR enables companies to gain affection from the society, which enables it to survive in the long term.

Despite the fact that there are many arguments in favor of CSR many companies do not decide to incorporate it. Some authors warn that there are also negative effects of CSR. Critics believe that organizations should leave social responsibility to other groups in the society and rather focus on profit. It is believed that some companies act socially responsible for selfish reasons, which may lead to the damaging of society they should have helped.

The main objection to CSR is the lack of social skills a business requires in order to make social decisions. Managers are not primarily qualified to solve social problems and are more oriented towards operations and finance. Interrelated argument is the creation of internal confusion and unjustified public expectations. Great involvement in the social system may segregate the interests of managers and create an uncertainty about the main organizational goals. These may divert the primary purpose of the business, which is to produce goods and services. Simultaneously, excessive CSR may increase public expectations of business that

are impossible to achieve. This can lead to negative corporate image and the loss of public support (Frederick et al., 1988, p.41).

Furthermore, social actions can lead to increasing the cost and lowering the profit as a result the firm's economic efficiency and therefore the profit decreases. In order to avoid this, the companies try to recover all of their costs in ways such as lowering dividends or raising the price of products and services. In the end the society pays the cost of CSR and if the public knew this they might not be so inclined for CSR. Additionally, the higher price could lead the company to be less competitive, since social proposals impose unequal costs among competitors. A socially responsible company has higher costs and a higher price, lowering its competitiveness (Frederick et al., 1988, p. 40-41). This is especially evident in the Chinese market where export companies that do not incorporate CSR will be actually rewarded because they will be able to capture most of the market. This is enabled by the unfair and fierce competition as well as the lack of enforcement of regulations and laws by the government.

Another argument apposing CSR is that businesses already have enough power and an additional power in the hands of organizations will weaken the public institutions, whose role is to solve social problems. Critics argue that businesses already influence the society to a great extent and giving them more power to make decisions in the social area will damage the balance of control that exist in today's society (Frederick et al., 1988, p. 42). Finally, people believe CSR is merely a smoke screen for stakeholders who are holding companies responsible for social issues. They are convinced that it is important to showcase companies' environmental and social deeds in a glossy CSR report. In 2005, out of 250 of the largest multinational corporations only 64 percent published CSR reports (Porter & Kramer, 2006, p.81). In most cases these reports comprehend anecdotes about uncoordinated programs to reveal company's social sensitivity.

Numerous arguments for and against CSR prove that organizations should be familiar with both sides. Those that speak in favor of CSR should also be aware that there are negative effects of CSR and acknowledge them. Nevertheless, both sides should be open to benefits and costs that CSR holds, since CSR brings benefits for the community as well as for the business, but only at a cost (Frederick et al., 1988, p. 40-45). Therefore, it is important to know how high these cost will be and who will pay them as well as to know if the benefits are worth the costs. The community still expects businesses to provide goods and services; therefore the main economic goal of businesses will not change on the behalf of CSR. Rather than that, CSR initiates new business criteria for social performance with the intention that companies react to both the economic need and the social goals of the changing society.

1.7 HOW TO IMPROVE CORPORATE SOCIAL RESPONSIBILITY IN BUSINESS

CSR will not improve if the company supports unethical behavior. Reaching higher standards of CSR in business comes with a right combination of primary elements of ethics and obvious reality (Jaklič, 2005, p.288). According to Frederick et al. (1988, p. 68-69) a firm that desires to improve CSR and ethical performance in business requires the following attributes:

1. **Top Management leadership** - Top managers are the main decision makers in the company, therefore the decisive factor in determining whether a company and its employees will perform ethically or unethically. The ethical behavior and actions of chief executive officers set an example for the employees. In order to establish a positive ethical tone all through the company, a high-ranking managers need to develop a strong ethical concern, let employees know what is expected from them as they do their work and most importantly, managers need to believe in ethical behavior and act accordingly. Managers represent the model of ethical behavior.
2. **Corporate culture and ethical climate** - Every company has a distinctive culture that influences the behavior and actions of its employees. A corporate culture differs from company to company and determines what acceptable ethical behavior is and what is allowed and what is not. It sets standards for employees on what and how are they are expected to act and behave while on the job. Managers need to be aware that people expect a high level of ethics from business. In order to reach this level and improve CSR as well as ethical performance, corporate culture needs to be based on sound ethical principles and also it needs to be open to discussion on controversial ethical issues that disturb the society. Successful corporate culture is capable of balancing company's economic values with the social and ethical values of other shareholders.
3. **Building ethical safeguards into the company** - Positive attitudes of top managers and ethical climate are not enough to improve CSR and ethical performance. Companies also need to build ethical safeguards that will send signals to employees on how to handle day-to-day ethical situations or how to deal with CSR. To provide this kind of ethical awareness and direction, several organizational steps can be taken (Frederick et al., 1988, p. 69).

The first step is **codes of ethics**. According to Vernon Heidi (1998, p. 176) the most effective way to encourage ethical conduct is the use of general codes, which must be specifically tailored for the company's activities and corporate culture. Codes of ethics encompass the general value system, the ethical rules and principles that a company tries to apply (Frederick et al., 1988, p. 69). These codes are ethical guidelines for employees when they face uncertain situations. The most successful codes of ethics are those that are drawn up with the involvement of employees and have defined precise rewards and penalties, which are enforced. Nevertheless, without the help of

managers there is no guarantee that employees will follow these codes of ethics, thus it is important that managers believe in the codes of ethics they are enforcing. From an international point of view codes of ethics help create an ethical climate that could be applied worldwide (Gooderham & Nordhaug, 2005, p.346). Codes are most commonly used by multinational companies to improve ethics of the operations of their offshore suppliers.

The second step is **ethical committees**. In most companies the role of ethical committees is taken on by the board of directors, who need to consider the ethical dimensions of company policies and practices (Frederick et al., 1988, p. 70). Ethical committees are important because they can introduce ethics into the highest levels of decision making in the company. They help create a policy inside the company, which enable them to inject ethics in these policies. Furthermore, ethical committees serve as a symbol that communicates company's commitment to ethics to employees as well as to external shareholders.

The third step is **ethical training programs**, which introduce employees to official company's policy on ethical issues and show how policy could be used in everyday decision making (Frederick et al., 1988, p. 71). These programs are important because the company can improve employee's ethical behavior. Nevertheless, because of its importance they are not an assurance against mistakes. It is not enough just to have ethical training programs, they need to be connected with everyday operations inside the company as well as they need to encourage ethical decision making.

The last step is **ethical audits** that tend to improve CSR and ethical performance in the company with the monitoring of the actual use of ethical codes. These audits attempt to reveal unethical behavior that may take place in the company as well it reveals opportunities for unethical behavior. Furthermore, ethical audits enable managers to appraise how far unethical practices vary from ethical codes and can determine strategies to close the existing ethical gaps (Frederick et al., 1988, p. 71). Gooderham and Nordhaug (2005, p. 348) determine three types of ethical audits: the internal auditing that is done by the company itself, the hired external audits that are conducted by external consultants hired and paid by the company, and independent external audits that are often executed by nongovernment organizations and local voluntary organizations. Regardless of the type of the monitoring, all investigate the degree to which companies act in accordance with their own codes of conduct.

Jaklič (2005, p.288-289) points out an additional attribute that a firm should acquire if it desires to improve CSR and ethical performance in business. This is the **personal characteristics of managers and other employees**. (Un)ethical behavior starts and ends with people, (un)ethical people form (un)ethical companies. In order to create a positive ethical surrounding in the company it is important to employ people who are positively appraised regarding the degree and harmfulness of their ethical egoism. Managers can gradually

introduce ethics into the company by emphasizing ethical behavior, thus influencing the increase of CSR.

1.8 THE FUTURE OF CORPORATE SOCIAL RESPONSIBILITY

CSR is a comprehensive topic that enables plenty of room to deliberate. While CSR is not widely practiced, it is now at least far more widely recognized and acknowledged as part of an important business vocabulary (Robins, 2005, p. 112). Questions such as how to best encourage it, how to best measure it, or even whether it should be voluntary or compulsory, are the subject of discussion and attention of today's businessmen as well as future ones.

We can point out three main improvements that are taking place today and are imperative to the future of CSR (Robins, 2005, p. 113). The first one is the trend of globalization; more and more companies are growing and entering the global markets. There is an increase in multinational corporations, a number which is increasing on a daily base. These corporations deal with different local standards and are inclined to take social actions in order to raise standards in the poorest and least sophisticated communities. They do so, in most cases, to evade public condemnation in their home country or in their major markets. Second is the information era since the business world is becoming flooded with information. We can notice a change in the environment, which pressures companies to be more apparent and active in the society. The third development is the positive connection between share price and ethical high ground. This is a great motivation for managers to act ethically. As a result, the community is satisfied and supports the business, which will lead to profits and the survival of the business in the long run.

Overall, there is a tendency towards CSR, which will in the future become more and more important (Robins, 2005, p. 113). Taking the three developments into consideration will contribute to greater pressure on the future laws and regulations, especially the national ones. Nevertheless, it is important to point out that business should not and cannot assume government's constitutional role, regardless the fact that at times organizations can be more efficient.

2 CHINA AND CORPORATE SOCIAL RESPONSIBILITY

2.1 INTRODUCTON OF CHINA

For centuries China has fascinated the world with its oldest and continuous civilization, consisting of an incredibly rich cultural heritage. It has the worlds longest continuously used written language that has been adopted by the neighboring countries such as Japan, Korea and Vietnam. Furthermore, China is a home of many major inventions, such as paper, the compass, gunpowder and printing. Today China is a combination of the glorious ancient

Cathay of legends and the modern persistent unapologetic superpower of the future (China, 2009).

The official Chinese name of China has changed over history, though the commonly used name is “*Zhōngguó*” that can be translated as “central nation” or more traditionally as “middle kingdom”. The name “*Zhōngguó*” appeared in the 6th century BC and it was used to refer to the belief that China is the “center of civilization (China, 2009). According to Tit Turenšek, ex-ambassador of Slovenia in China, these beliefs are still alive among Chinese people that consider themselves as the “center of civilization” and consider western people as the inferior race.

China’s official full name is The People’s Republic of China (PRC) and is located in Eastern Asia, between Vietnam and North Korea. It is bound by the East China Sea, Korea Bay, Yellow Sea, and South China Sea (refer to Appendix 1). The capital of the country is Beijing, which is also one of the global cities in China. The other two are Hong Kong and Shanghai. It is the fourth largest country in the world in terms of lands and the largest nation in Asia, covering 9,326,410 square km, including Taiwan, which China claims as province. The Chinese coastline extends from the mouth of the Yalu River in the northeast to the Gulf of Tonkin in the south, covering over 5,774 km and forms a great arc. It is also the home of three busiest ports of the world (Encyclopedia of the Nations, 2009).

China is the most populous country in the world with 1.3 billion people (1,338,612,968 as of July 2009). It is estimated that it accounts for 20 percent of the world population, which means every fifth person on the planet is a resident of China (Rosenberg, 2008). Having the largest population in the world, China has several ethnic nationalities of which Han Chinese represent 91.5 percent, some of the others are Zhuang, Manchu, Hui and Miao. The official language is Mandarin Chinese; in some regions Cantonese and Hakka are also popular. Officially, Chinese people are atheist, however we can also find Buddhist, Taoist and a small group of Christian and Muslim (The World Fact book, 2009).

The People’s Republic of China is one of the last five Communist states and the government has been described as communist and socialist, but also as controlling, with heavy restrictions in many areas, some of which are freedom of assembly, reproductive rights and the press. The government is divided among three bodies, Communist Party of China that runs the country, the state and the People’s Liberation Army. The primary organs of state power are the President, the State Council and the National People’s Congress, which is the highest organ of the state power (People’s Republic of China, 2009).

China has the third largest economy in the world, with a nominal GDP of \$43 billion (2008) when measured in exchange-rate terms (Economy of the People’s Republic of China, 2009). For the past quarter of centuries it has been the fastest-growing major nation with an average annual GDP growth rate above 10 percent. A major component supporting China's rapid economic growth are exports, thus in order to increase them, China pursued policies such as

fostering the rapid development of foreign-invested factories, which assembled imported components into consumer goods for export and liberalizing trading rights. The average annual growth of exports has significantly increased during the recent years and in 2007 it accounted for 20.8 percent. Around 80 percent of China's exports consist of goods that are manufactured, most of which are textiles and electronic equipment.

According to Chinese customs records half of exports are from foreign-invested companies (Harney, 2008a, p. 9). Foreign companies bring in components from elsewhere and then the Chinese workers assemble them into the final product. The value added in China is only a third of the value of the output in the whole export processing sector. The value added includes labor, parts and components bought in China and the profits earned by foreign-owned companies. Foreign companies are drawn to China because of the endless supply of workable labor force, lower costs of land, generous government motivations, a stable political system, good infrastructure, telecommunications and frequent departures by container ships. Furthermore, it contains more than 1000 industrial clusters, which are the cities surrounded by companies that supply material and components, repair machinery and handle logistics, all serving the Chinese export factories. All the components, machinery repair shops and raw materials are clustered together in the proximity of manufacturing companies. Having services and material close at hand increases efficiency and saves money as well as time. All these factors contributed in making China the world's third-largest producer after America and Japan (Harney, 2008a, p. 9-10).

The Chinese Central Government has divided China into 23 sheng or provinces, 5 autonomous zizhiqu or regions, 4 shi or municipalities and 1 special administrative Region. The focus of this thesis will be on Chinese export factories, located in Guangdong province, which was the first to be opened for international trade after 1978 and is the origin of about a third of the country's exports (Harney, 2008a, p.15). The province is located in the southern part of China mainland and it is a coastal bridge between Southern China and the rest of the world (refer to Appendix 1). Guangdong is one of China's fastest growing provinces and has the longest coastline in the country. It covers an area of around 177,900 square km, with the population of around 80 million people. It is estimated that there are an additional 30 million migrants who reside in Guangdong for at least six months every year, all together adding up to a population of more than 110 million. It is one of the most prosperous provinces in China, with normal GDB accounting for \$ 514 billion. Guangdong contributes roughly 12 percent of the total national economic output and in 2008 the value of exports was \$ 369.25 billion (Guangdong, 2009).

2.2 REGULATIONS IN CHINA

CSR came to China in 1990, when numerous multinational corporations started massively conducting social responsibility audits (Sheng & Fleming, 2008, p. 3). Before that ethical issues were covered by the concept of business ethics that have developed mainly as a response to the economic reforms in the past. Lu Xiaohe (1997, p. 1509-1511) identifies three

stages of development of business ethics in China. The beginning of the first stage is indicated with the emergence of business ethics as a discipline in 1978. At that time the focus moved to economic activity and the economic reforms started. At the first stage the connection of business and ethics initiated the establishment of moral rules and norms for workers. Furthermore, conditions were set up so that ethics in business could develop in the future. The second stage began when “The Decision on the Reform of the Economic System” was issued in 1984. At this stage studies were focused on new issues in the practice of reforms and discussions on business ethics moved to an issue-oriented approach. Business ethics were approached from an ethical viewpoint in a widespread way that includes all economics and business activities. The reforms entered the third stage in 1994 that is described as a stage of legislation because several laws and rules were issued. One good example is the first Labor Law in China that was issued in 1995 and is being modified to this day to facilitate changes. This stage is marked by the high level of awareness by the society on multiple issues that concern the quality of products and the pollution of the environment. Nowadays in China, most business ethics are based on codes of ethics that are enforced by western companies. These codes of ethics banned the use of child labor, slave labor and discrimination in the workplace (Harney, 2008a, p.188). In most cases these codes of ethics are simply translated into Chinese without considering what is ethical by Chinese standards.

China has formulated more than 20 laws and regulations that refer to CSR. They extended from labor legislation, environmental protection legislation to safe product legislation (Zhihai, 2007, p. 84). Over the past few years the attention to CSR- related issues has significantly grown in China. As a result, in 2004 the China Business Council for Sustainable Development was launched. It is a union of Chinese and international companies that share commitment to environmental protection, corporate responsibility and social equality. That same year the Chinese press reported on a range of government and business initiatives to improve workplace conditions (Buhmann, 2005, pg 22).

Corporations in China consider environmental and human rights assessment and actions as the main element of CSR (Buhmann, 2005, pg 71-77). Human right issues are dealt with by the companies in relation to CSR and extend from labor rights to health issues, but are only narrowed to social and economic rights. Protection of labor’s rights is regulated by the labor law and the trade union law. China formulated its first labor law in 1994, but it came into effect the following year. The law mandates a 44-hour workweek, excluding overtime that should not exceed 3 hours per day or 36 hours per month (Harney, 2008a, p.42). According to law, a standard working day is eight hours long. Additionally, employees are entitled for a 24-hour weekly rest period and free days of at least four national holidays. According to the law, in case a company would need employees to work longer than the standard workweek, it should be negotiated with their employees or a union. Furthermore, a company requires additional payment for overtime that amounts one and a half time the standard wage on weekdays, on off days it is twice the regular wage, and on Sundays as well as holidays is three times the regular wage. Under the labor law, companies are not allowed to employ children under the age of 16 and in case of illegally hiring minors companies can lose their business

license or are forced to pay specified fines (Buhmann, 2005, pg 22-23). The labor law provides legislation on working hours, wages, health and safety. Regarding the minimum wage, China does not have a defined national minimum wage. This standard is determined by local governments. Regulations on work-related health and safety as well as product safety issues specify terms to identify responsibility for occupational illness and accidents and determine penalties for violations of the law. The labor law was formulated to reassure foreign investors that China is a stable and well-regulated country where they can invest their money (Harney, 2008a, p.42).

The trade union law allows workers to participate and organize trade unions, under a condition that trade unions are a part of the All China Federation of Trade Unions (in the following ACFTU). According to the law, any company with more than 25 employees may set up a union branch if the workers request one, but it needs to be associated with the official union, the ACFTU. The law bans independent unions. The ACFTU was established in 1925 and has always been closely aligned with the Chinese Communist Party that has constantly directed union's activities. Consequently, union law officers are often appointed by the government or the party, despite the fact that under the Chinese trade union law officers must be elected by workers or their representatives. Under the law ACFTU is responsible for investigation of workplace hazards and possible violations of workers rights. Furthermore, it needs to provide legal aid to workers, consulting employees on the signing of labor contracts and representing workers in labor disputes. Regardless of the fact that it represents the workers in collective bargaining with management for salary and condition, it refuses to support workers in protests and is expected to prevent demonstrations (Harney, 2008a, p. 131-137).

The responsibility for the inspection of Chinese workplace is dispersed across diverse government bodies, however in rough, the Ministry of Labor and Social Security is responsible for the labor law. They are concerned with labor contracts, hours of work, wages and social insurance. The State Administration of Work Safety is responsible for the safety of the Chinese workplaces; on the other hand for the identification of potential workplace health risk the Ministry of Health is responsible. The Local government is left with the enforcement of the laws. They sort through the policies handed down to them and decide how rigorously to enforce them, taking into consideration their area's particular situation. Since local governments rely greatly on the revenues they generate through taxes and other fees, they do not have the motivation of implementing policies that would threaten that income stream. Another problem with the dispersed responsibility across multiple ministries is that issues can fall through cracks (Harney, 2008a, p.66 & p. 257).

2.3 SPECIFICS OF CORPORATE SOCIAL RESPONSIBILITY IN CHINESE FACTORIES

The world is getting smaller and companies of all sizes have to deal with globalization. The forces of globalization are changing the supply chain and consequently, over the past decade, western corporations have outsourced production to less developed countries, like China. Accordingly, China's share of global manufacturing measured in terms of value added has escalated, making China the world's third-largest producer after America and Japan (Harney, 2008a, p. 4). In the last ten years China's exports have been posting on average double-digit annual growth and it is expected that in 2020 it will overtake the United States as the world's largest manufacturer.

Increased outsourcing and globalization have amplified the importance of ethical practices, since conditions in developing countries have been described as poor compared to operations in developed countries. Public expectations of the ethical behavior of corporations has heightened and consequently, multinational corporations started to acknowledge the responsibility for working conditions at their supplier factories in developing countries (Egels-Zandén, 2007, p.45) In light of such large public expectations, multinational firms have focused attention on their CSR, with the creation of ethical codes. To insure ethical behavior in the supply chain, multinational firms demand compliance to these codes. While Chinese firms formally agree to operate according to the codes of ethic, this may not insure compliance (Krueger, 2008, p.115). Reasons behind non compliance to the codes of ethics will be described in the following chapter. Furthermore, I will also address the ways used by Chinese firms to conceal their unethical behavior. Finally solutions on how to improve CSR in China will be presented.

2.3.1 Reasons For Unethical Behavior Of Chinese Firms

As already defined in the previous chapters, ethics are a set of rules that tell us when our behavior is approved and when it is considered wrong. Therefore, we could deduce that we behave unethically when we do not act according to the rules. For the purpose of the thesis we will assume that corporations are behaving unethically when they are not complying with the codes of ethics, since codes are principally used by multinational corporations to ensure ethical behavior in their offshore operations. Furthermore, according to Schwartz and Carroll (2003, p.513) unethical actions are those that only intended to produce benefit for a company and not the affected stakeholders. Therefore, we can state that when Chinese factories do not comply with the codes, they act unethically, since they do not consider their corporate buyer, which are the multinational corporations.

The implementation of western codes of ethics is more difficult in China, since there are a number of cultural barriers that need to be considered. Heidi von Weltzien Hoivik (2007, p. 460-463) points out three main elements of Chinese culture that should be considered and understood by western companies when designing and executing ethical programs.

The first element and the dynamic drive in Chinese society is the “*Guanxi*” that stands for interpersonal relationship (Von Weltzien Hoivik, 2007, p.460-461). “*Guanxi*” is connected to some key concepts in Chinese culture, such as network relationship that also considers individual’s acknowledgment as a member of a group. Furthermore, “*Guanxi*” includes reciprocity or mutual obligations, an ongoing and long term commitment, “face”, and trustworthiness. It also comprises of power that Chinese people see as an honor. In other words, in China deals grow out of relationships, since this plays a significant role when conducting a business. “*Guanxi*” serves for most Chinese people as an essential social purpose. Additionally, it has its own moral codes that are from a Western perspective unethical. Westerners perceive “*Guanxi*” as “using” others, however in China “using” a relationship generates an obligation and on condition that you ultimately fulfill that obligation you are considered ethical. “*Guanxi*” is focused on the relationship so it is not the same as corruption or bribery. This relationship goes beyond the western concept of friendship, since Chinese people that share “*Guanxi*” are prepared to protect the members of the relationship regardless of what the rule states. The Chinese consider the Western fixation with rules as a deficiency, since it indicates a lack of trust that is essential for business.

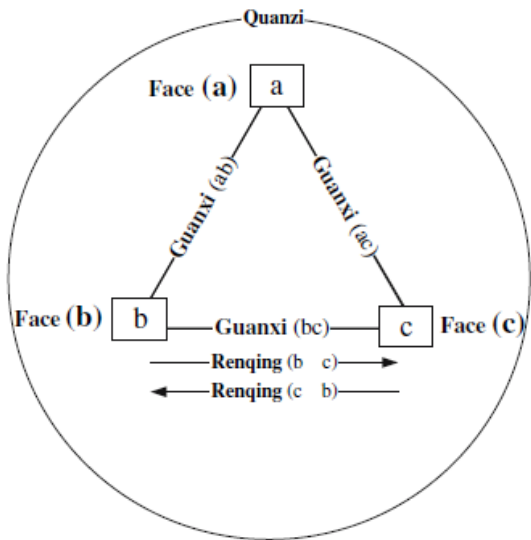
The next element that needs to be considered is “*Renqing*” that in direct translations of Chinese symbols means human feelings. This element indicates that the human element should not be overlooked in a relationship and that a mutual compromise should prevail. The concept of “*Renqing*” is associated with the gift giving ritual in China. In order to build and sustain a relationship, it is of high importance to know how to give and how to receive a gift. The gift does not necessary have to be tangible like a car, it is more than enough to give an intangible gift, like a compliment, in the presence of one’s boss. “*Renqing*” is in each gift, it is the informal and unselfish part of giving and taking among people. Relating “*Guanxi*” to “*Renqing*” reveals that the give and take concept is in fact ethical. The same goes for the concept of “Face” that is an additional ethical aspect of “*Guanxi* and refers to one’s honor of dishonor. “Giving face” is an act of giving someone the honor, and on the other hand “losing face” causes dishonor (Von Weltzien Hoivik, 2007, p.461-462).

Dishonor or “Losing Face” is the worst thing that can happen to a manager, thus they would do almost everything to prevent it. In most cases they try to avoid situations that would lead to “Losing Face” or in cases where that is not possible they would try to regain it. Tit Turenšek introduced me with an example that helps understand the concept of “loosing and giving face”. A western customer that sold glass vases came to China to close a deal with a Chinese supplier, hoping he would provide him the products in the long run. During negotiations, the western customer pressured the Chinese supplier for a lower price, which was after long and intensive discussion accepted by the supplier. The Chinese supplier perceived the low price as

inadequate but had to accept it in order to survive. He believed that he has “Lost Face”. Therefore, in order to regain “Face” he evaluated the real value of the negotiated price and accordingly shipped the products to the western customer, who received half of the shipment broken or unsuitable for sale. The customer received a shipment of products that the supplier considered the customer was entitled to in regards with the enforced low price. With this action the Chinese supplier “Gained Face” and according to their culture his actions are not considered unethical.

Finally, the concept of “*Quanzi*” that holds a resemblance to a value network is comprised of “Face”, “*Guanxi*” and “*Renqing*” (refer to Figure 2). In this framework “Face” is related to the identity of a person and the power of it is based on the extent of creditability other parts have. The relationship between two faces/persons is “*Guanxi*” the essence of which is to save and give “Face”. In this transaction “*Renqing*” is the monetary value and it is carried by tangible or intangible gifts. “*Renqing*” should be made in a reciprocal manner. Each “*Quanzi*” has entry barriers that are created by the quality and specialty of the general “*Guanxi*” and “Face”. Based on the framework of “*Quanzi*” we can detect that there is a significant demand for interdependence due to the fact that everybody depends on others to sustain “Face”. In view of the fact that “Face” is the most important social asset in this social group, individual self serving behavior is not tolerated or acceptable. People behave as members of a social group and act according to the best interest of this group. Additionally, the framework leads to another observation, which is the demand for reciprocity that implies the significance of preserving balance. Furthermore, since “*Guanxi*” is a relationship focused and long term oriented it is important to create a harmonious society. Finally, it is important to point out that in today’s society “*Guanxi*” can be used to hide or conceal corrupt practices because the relationship aspect supersedes the value of the corrupt transaction (Von Weltzien Hoivik, 2007, p.462-463).

Figure 2: The *Quanzi* circle



Source: H. Von Weltzien Hoivik, *East Meets West: Tacit Messages about Business Ethics in Stories Told by Chinese Managers*, 2007, p. 462.

Day and Tansey (1998, p. 11) point out an additional key cultural element that should be considered in ethical programs - the hierarchy. Chinese society is extremely hierarchical in nature and that shows in the paternalistic role of managers. The obligation of managers in most cases also extends beyond the workplace. Managers act as role models and are held in high esteem by employees based on their age, ability, effectiveness and morality. In China, the highest person in the hierarchy is the law, they are the authority and what they say is considered the same as a written law. Thus, the person has the authority to change the law when it does not suit him.

It is also important to point out that most of western corporate codes rest on deeply rooted cultural characteristics (universalism, individualism) and the western concepts of duty, impartiality, individual rights and justice. These codes do not work so well in other cultures that are characterized by collectivism/particularism, such as China. Chinese culture is characterized by a high degree of collectivism, which means that people are integrated into strong groups and each member of the group acts according to the best interest of the group. They work as a team and all achievements are a product of the whole group not an individual, even if the result was the work of one member. Collectivism is the opposite of individualism that is the foundation of most western codes of ethics, which focus on the individual. According to the codes, individualism is ethical (Von Weltzien Hoivik, 2007, p. 457-465). Taking these into consideration we can state that Chinese fundamental behavior is unethical, since they do not focus on the individual. Thus it seems advisable that multinational companies should take into consideration cultural differences when setting up codes of ethics.

Furthermore, they should also consider the characteristic of the labor force in China that is dominated by migrant workers. It is estimated that today there are between 120 million and 200 million migrant workers in Chinese cities. Just in Guangdong province alone there are between 17 million and 40 million migrant workers (Harney, 2008a, p. 8). They represent 70 percent of construction workers, 68 percent of manufacturing employees and 80 percent of coal miners. They leave their farms for mostly economic reasons, since wages in the cities are higher than what workers could earn at home. They usually work 11 months a year, since many factories are closed for the first months of the year and take the Chinese New Year holiday off. At that time migrants who can afford the train and bus tickets travel home to see their families (Harney, 2008b). While working in coastal cities migrant workers wish to earn as much money as possible in a short period of time and prefer to work longer hours to increase their salaries. Workers consider the legal minimum wage inadequate and like overtime, hence they are prepared to leave a factory that does not offer them to work extra hours (Harney, 2008a, p. 43-44). Chinese managers are caught between the demands of their employees and the demand of their corporate customers. The managers have no other choice but to follow the rules of the game in order to be able to compete with other factories and the rules of the game dictate that workers come first, since without them factories cannot produce any products (Harney, 2008a, p. 54). Tit Turenšek pointed out another characteristic of Chinese people that needs to be considered, which is their modesty and their perception of ethics. They are very modest people, who are satisfied with little things and their contentment

is not depended on the money, but rather on social security or the feeling of belonging. Thus they do not look at the concept of human rights the same way as the Western world. They do implement codes that are enforced by the multinational companies but do not understand them, since their concept of ethics greatly differs from the western point of view.

Additional problem faced by the Chinese managers is the up keeping of low prices. Chinese manufacturers are known for their low prices that have been low since around 2003 and have therefore become known simply as the China price (Harney, 2008a, p.2-3). The prices in China are so low because of the fierce and unfair competition. In some highly competitive, labor-intensive industries prices are falling rapidly, for example a retail price for footwear dropped 3.4 percent between 1998 and 2006 (Harney, 2008a, p. 28). The prices are also low do to the fact that some of the larger buyers demand annual or even quarterly price cuts, putting even more pressure on the factories. At these low prices Chinese managers have to find innovative ways to lower costs in order to afford further production. Hence they do not have the funds for implementing and complying with the codes of ethics. CSR actions raise the cost of the manufacturing process, which would consecutively raise the price. For instance, companies that pay their workers overtime according to the law or pay insurance for their workers will have higher costs than the companies that do not obey the law. Hence, acting in accordance with the law would significantly increase the cost and the company would not be able to compete with other low cost manufacturers, forcing it to lose its orders. This has created a play field where factories that follow the law are handicapped. Operating without the threat of the government and the penalties, factories take shortcuts to save money and lie about their business to please corporate buyers. This is a result of unfair competition which enables Western companies to buy goods at a very low price. In order to prevent unfair competition the government should enforce laws. However, the Chinese government is very reluctant to enforce its own laws, since they do not want to limit their income stream, and leave this job to the multinational corporations. Accordingly, factories that want to obey the law are less competitive in the market, forcing them to act unethically in order to obtain orders and survive (Harney, 2008a, p.255). To make matters worse most of the Chinese plants have cash flow problems, since buyers are continuously stretching their payment schedules. In some cases buyers do not pay the factory until long after it has shipped the product, even though the plant does not have the money to pay its workers. Putting additional pressure on cash-strapped factory and forcing them to act unethically in order to survive and retain orders (Harney, 2008a, p.208).

Western companies contribute to the problem also when they order a larger amount of products to be manufactured in a short period of time. Additionally, they demand the lowest possible price and sometimes change the design of an order at the last minute or approve the final product specification late in the production process, without lengthening the deadline. All these factors increase the costs of the product manufacturing, pushing Chinese managers to act unethically in order to fulfill the requirements. Western managers do not comprehend or consider the impact of their actions (Rosoff, 2004, p.46).

Many Chinese export manufacturers live from one order to another, coping with declining commodity prices and aggressive competitors. Competitors copy each other's advances and once profit margins of one product are eroded, companies move into production of a new product. Chinese companies have from 100 to 200 competitors. Overcrowding in many product categories is forcing manufacturers to endure paper-thin margins. Therefore, Chinese managers are reluctant to refuse orders even if they have to break the law to complete an order. Declining an order means losing income and also losing a customer that will put an order to their competitor. Retaining customers means survival on the long run even at the expense of the law and ethics (Harney, 2008a, p. 40).

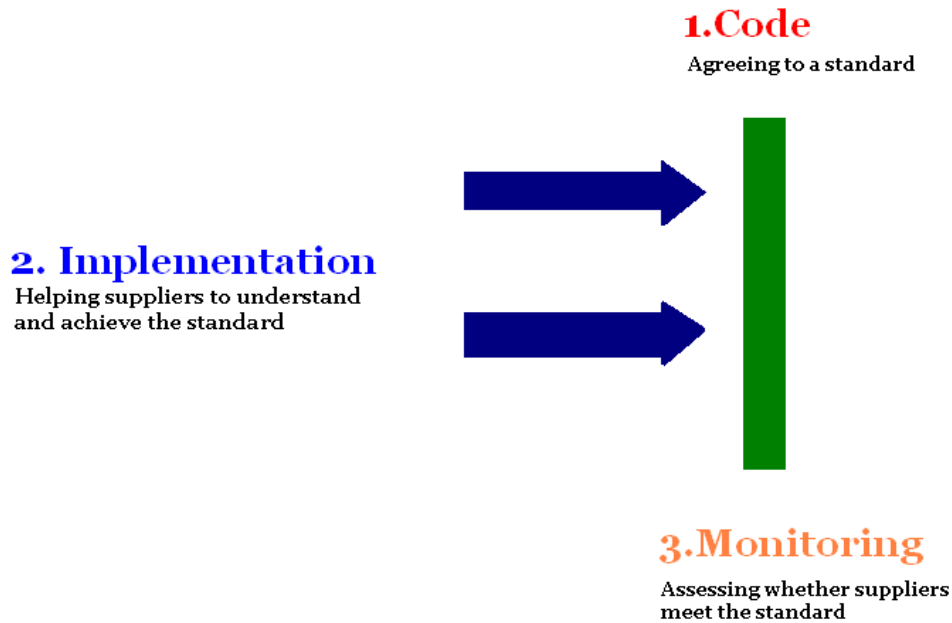
Furthermore, compliance with codes of ethic is in conflict with other factory's goals. Main organizational goals of Chinese factories are on-time delivery of products and profitability. These two goals are in most cases achievable only if the plant is not acting according to the law and the codes. Due to the low prices, factories sell their products and they can only achieve profitability by decreasing their costs, which are only possible to realize with unethical behavior such as decreasing the quality of the material they use in the production. Secondly, the goal of on-time delivery is hard to realize, since schedules for delivery are very short and thus forcing managers to violate the law and codes by working overtime (Egels-Zandén, 2007, p. 54). Chinese managers also find it hard to meet buyer's delivery schedules within legal limits because of the local conditions. In recent years frequent power outages were common in industrialized areas in costal Chine, which have impeded the manufacturing process (Harney, 2008a, p.208). Also in June 2008 a flood swept one of the cities in the industrial area, damaging factories' facilities and goods, thus creating enormous repairing costs (Not playing, 2009, p. 57). Since many Chinese managers do not have any strategies and are dealing with mistakes and problems from day to day, they are not properly prepared for these types of problems. This has made it easier for Chinese managers to lie than to tell the truth, since the factories were not able to meet the deadlines and at the same time comply with the codes of ethics (Harney, 2008a, p.208).

Another cause for not complying with the codes is the problem associated with implementation of the codes. Initially, there are too many different codes of ethics that are enforced in numerous different ways. Chinese factories can be confronted with different labor standards for different corporate customers, creating confusion and increasing the costs of compliance. Furthermore, the approaches used by multinationals to enforce codes vary enormously, escalating the problem of implementing codes even more. Some multinational companies will allow a factory to get away with much more than others. For example one company may allow the factory to work 60 hours a week compared to only 44 hours that are mandated by the law and their codes. This creates confusion in the factories as well as it increases implementation costs and adds to the problems that Chinese managers have to face. Factory managers are spending most of their time running around satisfying the needs of corporate customers instead of running their own business. Hence, they have begun to act unethically in order to be able to deal with the created confusion and increased costs. At the same time, the problem also lies in the multinational firms and their business model. Most

international firms have a large supply chain, often moving orders from one factory to another to take advantage of lower prices, better quality or faster delivery schedules. Multinational firms are moving in and out of various factories, ordering from a specific factory just for one season. Hence, the Chinese managers are not prepared to spend a lot of time, money and efforts to comply with codes of ethics from a customer that will only place one order and presents only a small portion of a factory's output. A factory might supply a variety of brands, each might account for only 5 percent or less of the factory's capacity. That sort of business relationship restricts the influence that companies have to improve conditions in Chinese factories. For instance, corporate customers with less than 5 percent have no power to influence the conditions in the factory (Harney, 2008a, p.206-208).

On the other hand, the companies with more percents have the power to change conditions in the factory, but in most cases do not provide factories assistance to implement these changes. Since the know-how of Chinese managers is often very low in regards to CSR, factories are unlikely to be able to change and significantly move towards customer requirements. While assuming that factories can meet the required standards, international companies tend to focus their efforts and resources on codes of ethics (step 1, refer to Figure 3) and monitoring (step 3, refer to Figure 3). Little or no focus is directed to the implementation of the codes (step 2, refer to Figure 3). Furthermore, managers in the multinational companies do not question the achievability or practicality of codes they are implementing. There is a huge gap between codes of ethics and local laws and practice. This means that codes of ethics are based on ideals instead of reality. While multinational companies form their requirements in regards to the local law, they do not consider the possibility that local laws are in fact not achievable and practical for Chinese factories (Gould, 2005, p.26-27). They employ the model called "comply or die" in which factories are given a couple of months and little support to correct mistakes. In case the factory does not improve their conditions so they are in line with the codes, the corporate customer withdraws their order, with no regard to the factory and demands they are enforcing (Power, 2008, p. 46). If a factory wants to survive under these conditions ethical behavior is not achievable, hence forcing it to act unethically.

Figure 3: Model of company activity



Source: D. Gould, The problem with supplier audits, 2005, p. 26.

To make things even worse, the world is experiencing a manufacturing crisis, which has affected the countries that are dependent on manufacturing exports even more. Such a country is China where there was a dramatic falling-away of order. Therefore, half of the factories that export have gone bust. Most migrant workers returned back to the farms, some lucky ones found work at factories that moved inland, although at a lower salary. There was a slump in demand for whatever a factory might make. Half a year ago, Chinese manufacturers were faced with the increases in all costs; from wages to the prices of materials and energy to interest rates and taxes. Furthermore, there was a short supply of skilled labor. All these forces did much to hold back Chinese business for a large part of the year and forcing many of the factories to close down. Also most corporate buyers are moving their orders out of China and into other developing countries, such as Vietnam. Thus, obtaining an order and survival have become the main goals of most Chinese factories, with no regard to the laws and codes of ethics that would additionally increase costs (Time to change the act, 2009, pg 67- 69).

Finally, Chinese managers do not comply with the codes because they do not need to. They are convinced they will not be caught. Simply said, they cheat because they can. Some of the problems can be traced to the lack of good auditors, since there are no certified public auditors of factories. The main credential of most auditors in China is that they are able to write a report in English. Audits were conducted by people that studied English literature and had no knowledge about environmental, health and safety, or Chinese safety standards (Harney, 2008a, p.209). However, this has changed and nowadays we can find people who have social compliance auditing experience and some are even approved auditors, but China is still lacking certified public auditors. There are simply not enough auditors to monitor all the

factories. In 2006, China only had 22,000 fulltime labor inspectors monitoring the workplaces of some 764 million employees. If we calculate we can see that one inspector had to monitor 34,727 workers. Investigators are so busy investigating factories and they have little time to proactively and in detail carry out the monitoring (Harney, 2008a, p.67).

Furthermore, wages in China's auditing industry are low, thus auditors were more inclined to accepting bribery. In average, auditors working in China made as little as \$263 to \$395 per month (Harney, 2008a, p.209-212). Therefore, some auditors took advantage of bribery and other gifts to increase their salaries. Even though multinational companies require auditors to negatively evaluate factories that offer bribes, Chinese managers will often try to influence the results of an inspection with a gift. Such an example is paying the hotel bill where the auditor is staying or offering money, folded in an envelope. Sadly 90 percent of audits accept bribery and positively evaluate the factory. Obviously, bribery worsens the problem of none compliance with the codes, since it allows all sorts of infractions to pass unnoticed. Additionally, international companies started shifting the costs of auditing to their suppliers, requiring factories to pay for every audit. It is estimated that factories now pay 70 percent to 80 percent of the audits in China, increasing the costs of already overburdened factories. Thus, factories are pressuring auditing firms to lower prices that are in some cases so low they are compromising the quality of monitoring. The pressures on the price are making audits shorter and one auditor might see two factories in one day. This is decreasing the quality of the monitoring and in majority of cases auditors miss a lot of what is really going on in the factory. Therefore, we can state with all probability that factories unethical action will not be detected, because there are not enough inspectors to make a proper audit or because auditors will be bribed.

2.3.2 The Hidden Costs Of The China Price

The fact remains that international companies are outsourcing their manufacturing process to save money and satisfy the customer's demand for ever-cheaper products. A response to this demand is the factory's incapability to comply with the codes of ethics as well as the falsification of records. It gives the multinational companies what they want in terms of both low price and a paper trail that proves compliance. In reality, international companies do not want to see many problems and do not want a serious audit. Audits are in most cases just a gesture (Harney, 2008a, p.227). For this reason, Chinese factories have founded numerous ways of how to conceal their unethical behavior, which will be presented in this chapter.

It is estimated that 90 percent of Chinese factories are falsifying at least some of their documents. Factory managers in China are forced to choose between losing an order from a corporate customer or complying with the codes and paying the cost, so many instead decide to cook the books (Harney, 2005, p.13). Hence tutoring and helping factories to pass audits has become an industry in China. A new breed of Chinese consultant companies has mushroomed to assist factories in evading audits. Consultant firms promise quick fixes for a fee that will enable factories to pass their audits. They provide advice on how to create fake

but authentic-looking records and give instructions on actions that should be carried out on the day of an inspection, such as moving any workers with grievances out of the factory. Furthermore, they also offer coaching managers on questions that may be asked by the inspectors (Roberts & Engardio, 2006, p. 50 -51). In case managers are unable to properly prepare, consultant companies can even, for a right price of course, pose a fake management team to convince auditors that a sound leadership structure is in place (Power, 2008, p.46).

Another version of consultancy is “falsification engineers” that also teach companies how to outsmart auditors. Due to the nature of the work they keep a low profile, but their presence is widely known among Chinese factory managers, labor advocates and auditors. These engineers are the mouse’s best friend in the game of cat and mouse that auditing has become in China. An example of help offered by falsification engineers is a recommendation to factories to apply for a waiver from the local government to allow their workers to work longer hours than it is allowed by the labor law. It is a common way of dodging the law in China and many international companies have no choice but to accept these waivers. Furthermore, they warn factory managers to keep a tight leash on female migrant employees around the age of 40, because they are less hesitant than their younger colleagues to tell the auditors about the actual working conditions (Harney, 2008a, p. 200 -201).

Due to increasing demand for help in how to disguise breaches of client’s codes of ethics, even computer software was invented that resets the times when workers punch in and out, so no illegal overtime shows up on the time cards. Some lower-tech ways to conceal unethical behavior include keeping double sets of books, distributing scripts for workers to recite if they are questioned by the auditors and also paying bonuses to reward workers for passing audits. Chinese factories have become the masters of falsifying documents and disguising their unethical practice, which makes it impossible for auditors to reveal them. The reason is also the fact that managers have created a network. With the use of websites, they swap advice, experiences and ask questions regarding audits. They swap advice on audits; such as if it is essential to bribe auditors in order to pass inspections. These websites are created by previous managers that possess the knowledge of how auditors work and are familiar with the process of inspection. This type of information exchange enables them to be one step ahead of inspectors (Power, 2008, p.46).

In most cases, Chinese factories falsify documents related to wages and hours of work. This extends to the practice of coaching the workers before the auditor’s visit. Documents for coaching workers and midlevel management include instructions on what to do and how to act in case of an audit. Managers are given certain instructions in case of an audit. Firstly, managers need to organize training for workers to prepare them. The training must take place in all departments and in all work places. Secondly, at the training, workers need to be educated on how to answer various questions given by an auditor and also they need to be educated to avoid telling the investigator the truth. It is of high importance that workers do not let the buyer know that they have been given prior training (Harney, 2005, p. 13). On the day of the audit, managers have to inform underage trainees, underage full-time workers, and

workers without identification to leave the factory through the back door. They need to order them not to remain near the dormitory area in case auditors would check them as well. After all the unsuited workers leave the factory, managers should ask the receptionist to gather all relevant documents and papers. Finally, managers should instruct all workers to put on necessary equipment such as earplugs and face masks (Roberts & Engardio, 2006, p. 55).

Alternatively, employees are given a list of questions that audits are likely to ask, with the correct answers. This document includes questions that range from questions about the numbers of days per month employees are working to the questions of employee's opinion about the factory. All questions are prepared with the correct answer, which need to be memorized by the workers. Chinese managers admit that auditor's interviews of employees create enormous stress, because employees are harder to control than documents. It is very hard to ensure that workers will give the correct answers. Workers represent a weak link in the paper trail of forged documents. In order to control workers, factory managers employ the reward/punish system for workers that are taking part in the inspection process. If employees pass an audit, they are given bonuses that make their effort worth the while (Harney, 2008a, p. 202-203). The financial compensation ranges from \$2 to \$10 (Egels-Zandén, 2007, p. 54). On the other hand, if workers do not pass an audit, they are punished both financially and in some other ways. This is one of the main reasons workers do not report the actual conditions to the auditors. The second reason is that they are afraid of losing their jobs and hence their source of income.

Chinese factories successfully manage to decouple the formally monitored part of the plant from the actual operational part of their plant with the use of double book keeping. This means that factories keep sets of documents for the inspectors that are falsified and another set of documents that are genuine and in possession of the factory's managers. It is estimated that submitting false records has risen from 6 percent to 75 percent in the past years (Roberts & Engardio, 2006, p. 53). Chinese managers are falsifying all documents in the factory, but in most cases they forge documents that cover their unethical behavior in terms of the labor conditions.

The Financial Times has obtained access to a Chinese factory, which is located in the southern province of Guangdong that forges its documents (Harney, 2005, p. 13). The factory's manager has assigned a team of six employees to create a paper trail of fake documents for corporate customers. One part of the team was responsible for punching fake time cards to give the impression that terms of the buyer were being met. The time cards need to match the payroll records. Therefore, one worker was responsible for creating matching payroll records on the computer. Both are a perfect match of the buyer's requirements. Some factories go even further and assign workers to rub falsified time cards in dirt to make them look genuine. This makes it even harder to distinguish fake documents from the genuine ones. The Chinese factories then show their international corporate buyers the fake documents that are nearly impossible to differentiate from the genuine ones. The falsified documents show shorter working hours, allowing managers to hide violations of the Chinese labor law and

western's codes of ethics. Some international corporations have found a way to get a feeling for the true working hours by reviewing production-related records that some factories forget to falsify. However, as the news travels fast in the Chinese management network, the factory managers started to forge them as well.

In cases where falsifying documents is not enough, Chinese managers turn to bribing auditors. Bribes in China range from \$500 to \$4,000. The size of the bribe is dependent on the size of the factory and can manifest in various ways, from gifts to money. Nowadays, an extravagant dinner at a local restaurant, a tour of the city, or a night out on the town are the ways Chinese managers can use to bribe an auditor. On the other hand, one auditor recalls an incident that happened when he refused a bribe. A Chinese manager opened the door of the auditor's taxi as he was leaving and threw the money at him (Harney, 2008a, p. 210 - 211). When bribing an auditor does not generate results, factory managers resort to bribing government officials. They build cozy relationships with the local officials by giving gifts and in return a violation of the law will be overlooked (Harney, 2005, p. 13).

In order to afford production some Chinese factories substitute the specified international standard chemicals for locally available chemicals, convinced that the end consumer will not detect the difference. The local chemicals cost less compared to the specified international standard chemicals. In addition, some manufacturers try to raise their profit margins by steadily decreasing the quality of material they use in the production; of course they do so without the knowledge of their customers (Harney, 2008aa, p. 205). For example, Chinese factory presents Paint A to its multinational buyer. The buyer then informs the supplier that Paint A is not acceptable because it violates codes concerning product safety and thus they should use something equivalent to Paint B, which fits the codes. The Chinese factory agrees but informs that these will increase the costs of production, thus increasing the price of the product and also delaying the shipment. Multinational company finds itself in a predicament and insists that the previously agreed price and schedule be maintained. Furthermore, they point out to the supplier that they should have known better than to use any other paint rather than Paint B. At this point, Chinese export factory finds itself under a lot of pressure to deliver on time, while complying with other requirements. The Chinese managers try hard to fulfill the request of their buyers, but in the end they use Paint A for the first few shipments, since it is available and the shipment needs to be on schedule (Brandt, 2008, p.28).

An additional way used by Chinese factories to hide underpayment of wages, excessive overtime and unsafe conditions, is the use of shadow factories. Most Chinese factories have two factories, one is for demonstration and the other one is used for the actual production. It is estimated that 99 percent of Chinese factories have a shadow factory to help them meet buyer's requests. "Shadow" or also called "black" factories are not registered by any authority and therefore in the eyes of the law do not exist, releasing them of having to pay taxes or binding them by oppressive rules on health and safety. Chinese managers are making sure these shadow factories are kept a secret, far away from the eyes and ears of the corporate buyers. Thus, not many records are kept, enabling managers to maintain shadow factory

operations off the Chinese government's radar. If inspectors arrived to the factory, employees would shut the door to the factory enabling inspectors to enter. Also all workers, if asked where they work, would say they are unemployed in order to protect the factory's anonymity. Facilities of shadow factories are located in mystery buildings that were build in a bubble of real estate development, their intended or actual use being unclear. In most cases, these shadow factories are just down the road from the demonstration factory, also called the five-star factory. The shadow factories have low ceilings, slippery floors and simple equipment. They are poorly lit and only the offices are air conditioned. Overall conditions are very poor and it is not a place where you would want to stay overnight. This type of factories only employ workers who are willing to work longer than the maximum legal working hours, without insurance or labor contracts. Workers in the shadow factory earn on average about \$165 per month, working from 11 to 12 hours per day, seven days a week. On the other hand, workers in the model factory earn on average \$127 per month working only from 8 to 10 hours per day, six days a week. Employees in the demonstration factory get paid monthly, while salaries at the shadow factories are paid daily. They get paid daily on their own request and even accept lower wages in exchange for the privileges. Paying daily wages is a hassle, since managers in the end of the working day need to have enough money to pay all the employees. Nevertheless, Chinese managers believe it is worth the trouble, since it is estimated that a shadow factory is 20 percent to 30 percent more productive than the model factory due to longer working hours. Most of the products are manufactured in the shadow factories, since the five-star factories are only there to look good. Their only function is to satisfy corporate buyer's request. The model factories operate strictly according to the corporate customer's codes of ethics, which means no more forging of documents and coaching of employees. Instead, most of the production is subcontracted to a shadow factory, which enables Chinese managers to utilize Chinese work force, which works long and hard (Harney, 2008a, p. 45-51).

Managers of Chinese factories employ all these methods, ranging from falsifying documents to shadow factories, to conceal their unethical behavior, because they believe there is no other way to meet corporate customer's requests and at the same time manufacture products at the China price. Their profit margins are rapidly decreasing as a result of the increasing demand for the ever-cheaper products. The demand for lower prices comes from the shoppers, who continually pressure retailers for less expensive products. The retailer then transfers this pressure onto the middle man who supplies him, who then demands lower prices from their suppliers in China, thus forcing Chinese factories to offer lower prices of their products. To gain orders, some Chinese factories even lower their prices below the cost of production (Harney, 2008a, p.53).

2.3.3 Finding solutions on how to improve Corporate Social Responsibility in China

Due to Chinese government policies, the Chinese labor-intensive export factories have in the past ten years enjoyed stagnant wages, ample costal land near the ports and endless supply of workable labor, as well as subsidized electricity and charitable tax breaks. The combination of all these factors lead to the low prices of Chinese products also known as the China price, which enabled China to become the world's dominate producer in a huge variety of products (Harney, 2008a, p. 273).

As change is inevitable, especially in today's continuously moving world, China is also experiencing a shift. The cost of wages and material are increasing, the risk of litigations are higher, a supply of cheap labor is declining, as well as consumer's demand for better quality and expect for products to be produced in a responsible manner (Harney, 2008a, p. 277). Consumers are also becoming more interested in the offshore operations of multinational companies. The overall awareness in regard to corporate social responsibility has significantly increased, forcing international companies to incorporate CSR in their suppliers from China.

If we place multinational companies and Chinese factories in the discussed model of CSR, the three-domain model, we can determine the needed actions in order to integrate CSR in both entities. According to the three-domain model, companies should seek to operate in the economical/legal/ethical segment, where all three categories of responsibility are met.

Chinese factories are situated within the three-domain model in the purely economical segment, since their actions are considered economical, illegal and unethical (refer to Figure 1). According to Schwartz and Carroll, (2003, p.512) their actions are considered unethical because they violate one of the moral principles. Export factories in China do not comply with codes of ethics, which fall under the standard of convection that dictates that ethical actions are those that are based on norms which have been accepted by the organization, the industry or the society, as obligatory for an appropriate performance of business. On the other hand, their actions are illegal because they do not operate in line with the local laws and regulations. The main goal of Chinese factories is profitability and they are acting accordingly, thus their actions are regarded as economical. The reasons for their unethical and illegal behavior were already described in the previous chapter, some of which are fierce competition, local condition, ideal and non practical codes of ethics. In order to operate in the centered segment, the economical/legal/ethical segment, Chinese factories should improve their ethical and legal behavior, meaning they should comply with the corporate buyers' request and at the same obey the law and regulations.

Operations of new model factories, which integrate corporate social responsibility and are situated in the central segment, considerably differentiate from the old Chinese factories. The efforts and solutions of the Chinese managers of the new model factories show that it is possible to treat workers well and at the same time make profit (Harney, 2008a, p. 235- 271).

They educate employees on what is good for them and demand that workers wear protective gloves and masks. To prevent workers to do extra overtime, managers in the new model factories started locking doors and shutting off lights after the day shift has finished. In order to retain workers from leaving the factory, since they were not allowed to work overtime, managers educated them about their rights. During the training it is explained that according to the law they are entitled to a certain wage, working hours and conduct by their boss. Also, workers are trained to calculate their legal wages based on the local minimum wage, so they can determine if they are paid properly. To handle employees' complains a workers' committee is elected by the workers. The workers' committee acts as an employee's representative in negotiation with the management to ensue their rights are protected. The committee helps achieve a harmonious factory and it increases productivity. Another solution to integrate CSR is to change the management style. The new model factory does not have one customer that occupies a majority of factory's capacity, but has multiple customers. This enables the factory to have influence in negotiations; hence it can propose a higher price in case it is busy with other orders. Since working hours are limited, managers in the new model factory, turn down orders if they cannot produce them within the framework of a workweek. Orders are accepted only if the profit is high enough to cover the additional costs of overtime. Managers also decline orders from corporate buyers that are only interested in securing the lowest price possible. The main factory's goal is to meet the demands of its employees. It is important to obtain workers, because they are familiar with the work, so they are more productive and produce quality products. The four main business principles are: motivate employees to perform, deliver reliable products, focus on the quality and efficiency and add value for the customer. Changes in the management of the company help incorporate CSR and improve the overall standards in the factory.

On the other hand, the multinational companies are situated within the three-domain model in the economical/legal segment (refer to Figure 1). Their actions are considered economical because they are outsourcing their production to China in pursuit to decrease costs of manufacturing and hence maximize the profit. Alternatively, they are acting legally by implementing and enforcing codes of ethics, which are in most cases formed in regards to the Chinese laws. Furthermore, Western companies demand the lowest possible price and sometimes change the design of an order at the last minute, thus increasing the cost of manufacturing, pushing Chinese managers to act unethically in order to fulfill the requirements. They do not consider the impact of their actions, which is according to Schwartz and Carroll regarded as unethical behavior. Schwartz and Carroll (2003, p.513) state that an action is regarded unethical when it is intended to produce benefits only for the corporation and not for the effected stakeholder, which is in this case the Chinese supplier. In order to operate in the centered segment, the economical/legal/ethical segment, multinational companies should improve their ethical behavior, meaning they should consider the effects on their stakeholder, the Chinese factories. Some of the solutions on how to act more ethically are described in the following.

Firstly, international companies should choose a set of Chinese suppliers and build a stable, long-term relationship with them by maintaining an open channel of communication. An open two-way dialogue on variety of issues is the key. International companies should explain to Chinese managers why they have codes of ethics and include them in the process of establishing codes that are practical and achievable. Codes that are according to cultural norms of behavior in China, as well as codes that take into consideration the overall conditions in the country, should be implemented. Furthermore, explaining why audits are conducted and how improved conditions can benefit factories can additionally strengthen the relationship. This gives meaning and purpose to the socially responsible actions and to enforced codes of ethics. In order to establish a useful relationship, international managers should build trust and encourage openness by not punishing the identified problems and rather offer help to solve these problems. This could be achieved by setting up an amnesty program, where factories agree to come clean about their working conditions and the company does not impose penalty, if the factory signs up to a series of incremental improvements. Offering help to make changes and providing support for change by constructing action plans with the factory also strengthens the relationship. Step by step, goals should be determined and international companies should measure improvements rather than compliance with codes. Rewarding actual change and giving credit for incremental change can increase motivations and willingness to change. Managers of multinational companies should show respect to Chinese managers and also show understanding for the pressure they are under, but at the same time emphasize the need for an effort towards change. Furthermore, international companies should share the cost of implementing codes of ethics, so that not all the costs of implementation fall down onto the factory. All these actions enable multinational companies to establish a successful relationship with Chinese factories (Gould, 2005, p. 29).

To solve the problem of falsified documents, many international companies start to perform audits more aggressively. Auditors have become part detectives, part consultants. One of the ways used by these detective audits was checking food services records and interviewing cafeteria staff that the factory managers forgot to coach. This type of auditing creates a deep sense of mistrust between multinational corporations and Chinese suppliers, which disables to initiate any improvements. Therefore, this is not a real solution, it just creates more problems. Instead, international companies should move away from traditional audits and start searching the root causes of factories' inability to comply with the codes. Identifying the causes and understanding why companies do not comply with the codes can help companies find a solution that will suit both them and the factory (Harney, 2008a, p. 220).

The final solution is education that should be carried out on both parts of the supply chain; in the multinational companies as well as in the Chinese factories. Multinational companies should educate themselves about their options. They can gain useful information through organizations such as the China Working Group. On the other hand, they should give their Chinese suppliers information about management skills they might use in order to comply with the codes, such as how to increase productivity of workers, so they do not need to work overtime in order to produce on schedule. Transferring the knowledge of multinational

managers can be conducted with training, workshops or with in-factory consulting. If this does not show results, companies can involve a few factories in a long-term project and work with them to solve problems. Providing telephone consultancies can additionally contribute to the educational process, since factories can ask questions on how to make changes. Additionally, multinational companies should empower Chinese workers by educating them about the law and their rights, as well as by helping workers elect their own factory representative. Educate them so they will protect their own rights and will expose unethical behavior (Rosoff, 2004, p.47).

All these solutions can be accomplished with the support of Chinese legal system, however that needs to change. China already has laws and regulations that were set up to improve the operations of Chinese factories but the laws are not enforced. Hence the laws and regulations do not have any influence on the actions of managers. They do not hold responsibility for their actions and do not pay penalties for violating the law. Thus enforcing the laws is crucial, since it would force managers to find ways to work more efficiently. Also, it would reduce the hazards in the workplace and therefore reducing medical bills for occupational illness. Secondly, it would raise the price of Chinese products, thus helping resolve the trade disputes, as well as it would show serious effort of the government to raise labor and environmental standards (Harney, 2008a, p. 270).

The legal system needs to become a reliable and predictable channel for people to resolve disputes. China needs to considerably expand inspections of factories for labor and environmental law violations and enforce penalties that will stick. It needs to set up an organization that actually represents workers, particularly migrants, in their negotiations with different entities ranging from the government to their employer. This organization could be ACFTU, but it would need to undergo substantial reform, so it could serve the workers more effectively. Furthermore, it needs to improve its health care system and increase its research on the environmental impact on health. Promotion of corporate social responsibility and new labor contract law are also steps towards a change that the Chinese government should make. All these improvements would additionally contribute to the solutions and efforts made by the multinational companies and Chinese factories (Harney, 2008a, p. 288).

CONCLUSION

Consumers are constantly demanding cheaper products, which is pressuring companies to find innovative ways to cut cost. One solution that majority multinational companies resort to is the offshore outsourcing of the noncore processes. Most companies decide to outsource their manufacturing processes to developing countries, because they provide services at economically cheap price. China is one of the developing countries, where export factories make everything from basic consumer goods to the higher-tech products at a very low price. It is believed that some manufacturers even sell their products under the cost of production (Harney, 2008a, p. 53).

In addition to the demand for cheaper products, the public demands that these products are produced in an ethical manner. Recent years have witnessed an increase in importance of corporate social responsibility and it is believed it will become the essential part of business. Society expects that the manufacturers of the products, in this case the Chinese export factories, comply with regulations and laws while producing goods in an ethical manner.

Formally, the Chinese export factories agree to operate according to the codes and regulations, though this may not insure compliance because of the following reasons:

- Cultural barriers (individualism/collectivism, hierarchy, *Guanxi*, *Renqing* and *Quanzi*)
- Characteristics of the labor force and Chinese people
- Low price of export products
- Local conditions
- Unreasonable demands of multinational corporations
- Cash flow problems
- Implementation of codes of ethics that are based on ideals instead of reality
- Ignoring the process of implementation of codes of ethics. Focus of multinational companies is oriented towards codes and monitoring.
- Multinational companies employ the model called “comply or die”
- A wide variety of codes of ethics that are enforced in a variety of ways, creating confusion
- Compliance with codes of ethics is in conflict with other factory’s goals
- Business model of multinational companies with a large supply chain
- Chinese manager are convinced they will not be caught, because China is lacks good auditors
- Manufacturing crises

A response to all these aspects is the factory’s incapability to comply with the codes of ethics and the falsification of records. It is estimated that 90 percent of Chinese export factories cook the books, which has also become an industry in China (Harney, 2005, p.13). A new breed of Chinese consultant companies and falsification engineers has mushroomed to assist factories in evading audits. They provide advice on how to create fake but authentic-looking records and to tutor workers and managers. Furthermore, to assist factories in disguising their unethical behavior, computer software was invented that presets the times when workers punch in and out, so no illegal overtime shows up on the time cards. Some lower-tech ways to conceal unethical behavior include keeping double sets of books, distributing scripts for workers to recite if they are questioned by the auditors and also paying bonuses to reward workers for passing audits. Additionally, managers have created a network on the internet where they swap advice, experiences and ask questions regarding inspection.

In cases where falsifying documents is not enough, Chinese managers turn to bribing auditors and government officials. Furthermore, to decrease costs of production some Chinese factories substitute specified international standard chemicals for the locally available chemicals convinced that the end consumer will not detect the difference. In addition, some

manufacturers try to raise their profit margin by steadily decreasing the quality of material they use in the production and they do that without the knowledge of their customers. Finally, some Chinese companies resort to the use of shadow factories, which are not registered with any authority and therefore in the eyes of the law do not exist, releasing them of having to pay taxes or binding them by oppressive rules on health and safety. Not many records are kept, enabling managers to maintain shadow factory operations off the Chinese government's radar. In addition to the shadow factory most Chinese factories also have a factory for demonstration, which operates strictly according to the corporate customer's codes of ethics, therefore no more forging of documents and coaching of employees. Instead, most of the production is subcontracted to a shadow factory, which enables Chinese managers to utilize Chinese work force, which works long and hard.

Managers of the Chinese factories employ all these methods, ranging from falsifying documents to shadow factories, to conceal their unethical behavior because they believe there is no other way to meet corporate customer's requests and at the same time they manufacture products at the Chinese price. The solutions for better working conditions and operations in Chinese factories lies in the two entities incorporated in the process of production of export products, the multinational buyers and the Chinese factories.

If we place multinational companies and Chinese factories in the discussed model of CSR, the three-domain model, we can determine the needed actions in order to integrate CSR in both entities. According to the three-domain model companies should seek to operate in the central segment, the economical/legal/ethical segment, where all three categories of responsibility are met. Chinese factories are situated within the three-domain model in the purely economical segment. Their actions are considered economical, illegal and unethical. In order to operate in the central segment, Chinese factories should improve their ethical and legal behavior, meaning they should comply with the corporate buyers request and at the same obey the law. The main change to be made is to modify the management style and the business model of the Chinese factories that should for example turn down orders they cannot produce in the framework of a workweek. On the other hand, the multinational companies are situated within the three-domain model in the economical/legal segment. Their actions are considered economical as well as legal and at the same time unethical. In order to operate in the central segment, multinational companies should improve their ethical behavior, meaning they should take into consideration the effect of their actions on their stakeholders, the Chinese factories. The main solution is to choose a set of Chinese suppliers and build a stable, long-term relationship with them by maintaining an open channel of communication. These solutions can be accomplished with the support of Chinese legal system that needs to change. It needs to become a reliable and predictable channel for people to resolve disputes. China needs to considerably expand inspections of factories for labor and environmental law violations and enforce penalties that will stick.

In conclusion, the working and operational conditions in Chinese export factories are the result of the cat and mouse game played by the multinational companies and Chinese factories that are in constant pursuit for lower prices and lower costs. Both hold the responsibility for the poor conditions in China. The Chinese legal system additionally contributes to the problem by not intervening and enforcing its own laws and regulations. In order to achieve change, drastic measure will be needed in all areas of business.

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APPENDICES

Appendix 1: Map of China and Guangdong Province



Source: A. Harney, *The China Price: The True Cost of Chinese Competitive Advantage*, 2008

Appendix 2: Summary in Slovenian Language

UVOD

Današnji potrošniki neprestano zahtevajo nižje cene proizvodov ter s tem silijo podjetja v iskanje novih inovativnih načinov, kako zmanjšati stroške in posledično cene proizvodov. Eden načinov, ki se ga mednarodna podjetja poslužujejo, je zunanje izvajanje »stranskih« dejavnosti v tujini. Večinoma se multinacionalke odločijo za zunanje izvajalce v tujini za proces proizvodnje, saj jim omogoča doseganje konkurenčne prednosti z izkoriščanjem hitro in lahko dosegljivih virov. Zunanji izvajalci v nerazvitih državah so privlačni, saj ponujajo storitve po ekonomično nizki ceni v primerjavi z izvajalci v razvitih državah. Ena takih nerazvitih držav je Kitajska, ki je tudi predmet obravnave te diplomske naloge.

Kitajska je privlačna destinacija za zunanje izvajanje proizvodnje, saj ima velik bazen delavcev, nižje stroške zemljišč, darežljive vladne prispevke, stabilen politični sistem, urejene ceste in pogoste odhode tovornih ladij (Harney, 2008a, str. 8–9). Privlačna je tudi zaradi nizkih cen izvoznih proizvodov. Podjetja na Kitajskem izdelujejo vse od osnovnih potrošniških izdelkov do visoko tehničnih proizvodov pri stalnih nizkih cenah, kar je njihova bistvena značilnost. Okrog leta 2003 so bile cene izdelkov tako nizke, da so postale znane enostavno kot kitajske cene (Harney, 2008a, str. 2–3).

Odločila sem se, da bom preučevala Kitajsko kot eno nerazvitih držav, ker so kitajski izvozi v zadnjih nekaj letih sunkovito narasli, posledično pa je Kitajska postala tretja največja izvoznica, takoj za Evropsko unijo in Nemčijo. V letu 2008 so kitajski izvozi znašali 14,65 milijarde dolarjev (The Worlds Fact Book, 2009). V mednarodnem prostoru so kitajska izvozna podjetja vroča tema, njihovo delovanje pa je pod neprestanim opazovanjem budnega očesa potrošnikov. Predvsem od takrat, ko smo bili priča številnim škandalom z različnimi proizvodi, jih ima ves svet pod drobnogledom. Posledično lahko najdemo veliko člankov in knjig, ki preučujejo in analizirajo etično obnašanje kitajskih izvoznih podjetij.

Namen diplomske naloge je preučiti delovne in operativne pogoje v kitajskih izvoznih podjetjih, ki so locirana v provinci Guangdong. Cilj diplomske naloge bo odgovoriti na vprašanja, zakaj Kitajska izvozna podjetja ravnajo neetično, kako prekrivajo neetično ravnanje in kakšne spremembe so potrebne za izboljšanje pogojev.

Idejo za diplomsko nalogo sem dobila v članku pisatelja Power C. z naslovom Manufacturing: The Burden of Good Intentions. Pisatelj se v članku dotakne vprašanja, zakaj podjetja v nerazvitih državah težko ravnajo etično. Krivdo zvali na mednarodna podjetja, ki se v lovu za nižjimi stroški poslužujejo zunanjih izvajalcev v tujini. Od zunanjih izvajalcev pričakujejo izdelke po nizkih cenah, ki so izdelani hitro ter v okviru zakona in etičnih kodeksov. Na kratko članek predstavi pogoje, s katerimi se soočajo proizvodna podjetja v nerazvitih državah.

Diplomska naloga je sestavljena iz dveh poglavji. Začetno poglavje predstavi koncept družbene odgovornosti. Poglavje vsebuje definicijo družbene odgovornosti in poslovne etike, teoretični model za boljše razumevanje koncepta družbene odgovornosti, kateremu sledi diskusija o negativnih in pozitivnih lastnostih družbene odgovornosti. V nadaljevanju so predstavljeni načine, kako lahko podjetje izpopolni družbeno odgovornost in na koncu pogledamo v prihodnost družbene odgovornosti. Drugo poglavje prikazuje praktični del diplomske naloge, kjer je predstavljena Kitajska in njeni zakoni. V nadaljevanju pa si pogledamo specifične družbene odgovornosti na Kitajskem, kjer skozi podpoglavja odgovarjam na svoja tri ključna vprašanja. Za konec podam še kratek povzetek ugotovljenega in izrazim svoje mnenje.

DRUŽBENA ODGOVORNOST

Organizacije niso popolnoma neodvisne od svojega okolja, delujejo v socialnem okviru in čutijo vpliv države ter skupnosti, v kateri opravljajo svojo dejavnost. Obstaja vidna povezava med podjetji in njihovim okoljem, ki se kaže v povpraševanju po družbeni odgovornosti. Družbena odgovornost se razlikuje od kulture do kulture, od naroda do naroda, od industrije do industrije in v časovnem okviru. V primeru, ko želi podjetje definirati, kaj pomeni družbena odgovornost, se mora povezati z interesnimi skupinami in upoštevati njihove želje in potrebe. V splošnem je družbena odgovornost način združevanja skrbi za okolje in socialne skrbi za dobrobit celotnega socialnega sistema. V praksi se koncept družbene odgovornosti v mnogih primerih enači s konceptom poslovne etike. Pogosto se oba koncepta uporablja kot sinonima, čeprav ju akademiki razlikujejo v svojih modelih in teorijah. Za namen te diplomske naloge bomo predpostavljali, da imata koncepta isti pomen, saj ju večina literature, uporabljena za praktičen del diplomske naloge, ne razlikuje. Vendar je pomembno izpostaviti, da bo v modelu, predstavljenem v nadaljevanju, družbena odgovornost predstavljena kot širši vidik etike.

Schwartz in Carroll (2003, str. 508), sta oblikovala tridimenzionalni model družbene odgovornosti. Model sestavljajo tri glavne odgovornosti: ekonomska, zakonska in etična. Odgovornosti so predstavljene v shematičnem grafu, ki poudarja njihovo sovpadanje in posledično sestavlja sedem kategorij, v katerih je družbena odgovornost analizirana in prikazana (glej sliko 1).

Slika1: Tridimenzionalni model družbene odgovornosti



Vir: S. M. Schwartz & B. A. Carroll, Corporate Social Responsibility: A Three-Domain Approach, 2003, str. 509.

Prvo področje (zgolj ekonomsko) vključuje dejanja, ki so gospodarska in tvorijo ekonomsko blaginjo, so nezakonita in neetična. Drugo področje je zgolj zakonsko in vključuje tista dejanja, ki so v skladu z zakoni in ne tvorijo ekonomskih koristi. Podjetja ravnajo upoštevajoč zakone in ne zaradi ekonomskih koristi. Tretje območje je zgolj etično in zajema dejanja, ki niso gospodarska in ne upoštevajo zakonov. Dejanja v tem področju so izpeljana, ker se obravnavajo kot etična glede na vsaj en moralni princip (dogovor, deontološki kodeks, posledični), in nimajo ekonomskih koristi ter niso v skladu z zakoni. Nadaljujemo na področja grafa, ki se prekrivajo. Prvo tako področje je ekonomsko/etično, ki vključuje dejanja, ki so etična in gospodarska, vendar niso v skladu z zakoni. Dejanja v tem področju temeljijo na konceptu »dobra etika je dober posel«. Drugo področje, ki sovpada, je ekonomsko/zakonsko in zajema vsa dejanja, ki so gospodarska in vključujejo zakone, vendar se štejejo kot neetična. Šesto področje je zakonsko/etično, ki vključuje tista dejanja, ki so etična in upoštevajo zakone, vendar nimajo nobene ekonomske koristi. Zadnje, ekonomsko/zakonsko/etično področje, združuje vse tri odgovornosti in leži v sredini grafikona. Podjetja si prizadevajo, da se nahajajo znotraj tega področja, kjer imajo dejanja istočasno ekonomsko korist, upoštevajo zakone in se štejejo za etične.

Obstaja veliko argumentov za in proti družbeni odgovornosti. Mnogi trdijo, da podjetja z implementacijo družbene odgovornosti pridobijo, spet drugi dvomijo v njene prednosti in so prepričani, da zmanjšuje konkurenčnost podjetjem. Kljub temu je pomembno, da so pripadniki obeh strani odprti za koristi in stroške, ki jih družbena odgovornost prinaša, saj družbena odgovornost prinaša koristi podjetjem in družbi samo pri določenih stroških. Prav

zato je pomembno vedeti, kako visoki bodo ti stroški, kdo jih bo pokrila ter ali stroški opravičujejo koristi.

Podjetja, ki se odločijo za implementacijo družbene odgovornosti, si nenehno prizadevajo le-to izboljšati. Federick et al. (1988, str. 68–69) izpostavi sledeče značilnosti, ki bi jih podjetje moralo izpopolniti v primeru, ko želi izboljšati družbeno odgovornost: etično vodenje managerjev, kultura podjetja in etična klima ter vgradnja etičnih varovalk v podjetje (etični kodeksi, komisija za etičnost, programi o etiki in etična revizija). Jaklič (2005, str. 288–289) izpostavi še dodatni element za večjo etičnost v podjetju. Poudari, da je za dosego te pomembna osebna lastnost managerjev in ostalih zaposlenih.

Družbena odgovornost je obsežna tema, ki omogoča veliko prostora za razpravljanje. Čeprav se jo v praksi malo uporablja, je vse bolj priznana in obravnavana kot pomemben del poslovnega besedišča. Na splošno lahko zaznamo zanimanje podjetij za družbeno odgovornost, ki bo v prihodnosti pridobivala na pomembnosti (Robins, 2005, str. 112–113). Ob upoštevanju sprememb v današnjem poslovnem svetu (trend globalizacije, doba informacij, povečanje število mednarodnih podjetij) lahko trdimo, da bo razvoj družbene odgovornosti vplival na prihodnje zakone predvsem na nacionalni ravni. Pomembno je poudariti, da poslovanje ne sme in ne more prevzeti vloge vladnih ustanov, ne glede na dejstvo, da so včasih organizacije bolj učinkovite pri reševanju socialnih problemov.

SPECIFIKE DRUŽBENE ODGOVORNOSTI NA KITAJSKEM

Kitajska je že stoletja fascinirala svet z najstarejšo trajajočo civilizacijo, ki obsega neverjetno bogato kulturno dediščino. Ima najdaljšo neprekinjeno uporabo pisane besede in je dom mnogih velikih izumov, kot so papir, kompas, smodnik in tisk. Današnja Kitajska je kombinacija antičnega Cathay iz legend in moderne, nepopustljive, neprizanesljive super sile prihodnosti (China, 2009).

Uradno kitajsko ime Kitajske se je skozi zgodovino spreminjalo, čeprav je pogosto uporabljano ime »*Zhōngguó*«, v prevodu »glavni narod« oziroma bolj tradicionalno »srednje kraljestvo«. Ime »*Zhōngguó*« se je pojavilo v 6. stoletju p. n. š. in je bilo uporabljano v zvezi z verovanjem, da je Kitajska center civilizacije (China, 2009). To prepričanje je še danes živo med prebivalci Kitajske, ki sebe pojmujejo kot središče civilizacije in zahodnjake kot inferiorno raso.

Polno uradno ime Kitajske je Ljudska republika Kitajska, nahaja se v vzhodni Aziji, med Vietnamom in Severno Korejo. Obkrožajo jo Vzhodno kitajsko morje, Korejski zaliv, Rumeno morje in Južno kitajsko morje (glej prilogo 1). Kitajska je četrta največja država na svetu glede na ozemlje in največji narod v Aziji, obsega 9.326.410 kvadratnih kilometrov, vključno s Tajvanom, ki si ga Kitajska lasti kot provinco. Kitajska obala obsega več kot 5,774 km in tvori obliko loka. Tu so tudi tri najprometnejša pristanišča na svetu (Encyclopedia of the Nations, 2009).

Kitajska je ena najgosteje naseljenih držav na svetu s kar 1,3 milijarde prebivalcev (1.338.612.968 od julija 2009), kar po ocenah znaša 20 odstotkov svetovne populacije, to pomeni, da je vsak peti Zemljan prebivalec Kitajske (Rosenberg, 2008). Je ena od zadnjih petih komunističnih držav, njena oblast je opisana kot komunistična in socialistična, pa tudi kot nadzirajoča, s strogimi omejitvami na mnogih področjih, med drugim tudi na področju pravice do združevanja, natalitete in tiska. Oblast je razdeljena na tri telesa: Komunistično partijo Kitajske, ki vodi državo, državno upravo in Ljudsko osvobodilno armado. Glavni organi državne moči so predsednik, državni svet in državni ljudski kongres, ki je najvišji organ državne moči (People's Republic of China, 2009).

Kitajska ima tretjo največjo ekonomijo na svetu, katere nominalni BDP znaša 43 milijard dolarjev (leta 2008), merjen glede na devizne tečaje (Economy of the People's Republic of China, 2009). V zadnjem četrtletju je najhitreje rastoča država s povprečno letno rastjo BDP nad 10 odstotkov. Glavni element podpore hitre rasti Kitajske je izvoz. Za povečanje le-tega si je Kitajska prizadevala z ukrepi, kot sta pospeševanje razvoja tovarn tujih investitorjev, ki se ukvarjajo s sestavljanjem uvoženih komponent v potrošnje dobrine za izvoz in liberalizacijo tržnih pravic. Povprečna letna rast izvoza se je znatno povečala in v letu 2007 znašala 20,8 odstotka. Okoli 80 odstotkov njenega izvoza sestavlja proizvedeno blago, večino od tega tekstil in elektrotehnika.

Po oceni kitajske carinske službe prihaja polovica izvoza iz podjetij tujih investitorjev. Tuja podjetja uvozijo komponente od drugod, le-te pa nato kitajski delavci sestavijo v končni izdelek. Dodana vrednost na Kitajskem znaša le eno tretjino dodane vrednosti proizvodnje v vsem izvozno-predelovalnem sektorju. Tuja podjetja na Kitajsko privabi neizčrpna zaloga delovne sile, nižji stroški zemljišč, darežljivi vladni prispevki, stabilen politični sistem, urejene ceste, telekomunikacije in pogosti odhodi tovornih ladij. Obenem na Kitajskem obstaja več kot 1000 tehnoloških mrež, to so mesta, obkrožena s podjetji, ki dobavljajo material in komponente, vzdržujejo stroje in urejajo logistiko ter vse služijo kitajskim izvoznim podjetjem. Vse komponente, delavnice za popravila strojev in surovine so zgoščene v bližini predelovalnih obratov. Bližina materiala in servisnih storitev poveča učinkovitost in prihrani tako denar kot tudi čas. Vsi ti dejavniki so prispevali k razvoju Kitajske v tretjo največjo proizvodno državo, takoj za Ameriko in Japonsko (Harney, 2008a, str. 9–10).

Kitajska centralna oblast je razdelila Kitajsko v 23 provinc, 5 regij, 4 občine in 1 posebno upravno regijo. Glavna tema diplomskega dela bodo kitajska izvozna podjetja, ki se nahajajo v provinci Guangdong, ki je bila prva od provinc, ki se je odprla za mednarodno trgovanje po letu 1978 in iz katere izhaja približno tretjina državnega izvoza (Harney, 2008a, str.15). Provinca se nahaja na južnem celinskem delu in sestavlja obalni most med Kitajsko in ostalim svetom (podrobneje v prilogi 1). Guangdong je ena najhitreje rastočih provinc na Kitajskem in ima najdaljšo obalo v državi. Obsega območje v velikosti 177.900 kvadratnih kilometrov in je dom okoli 80 milijonom ljudi. Po ocenah vsako leto v Guangdongu vsaj 6 mesecev biva dodatnih 30 milijonov emigrantov, kar skupaj s stalnimi prebivalci predstavlja populacijo, večjo od 110 milijonov. Je ena najuspešnejših provinc na Kitajskem, njen BDP znaša 514

milijard USD. Guangdong v grobem prispeva 12 odstotkov celotne državne ekonomske proizvodnje, v letu 2008 je vrednost izvoza znašala 369,25 milijard USD (Guangdong, 2009).

Nacionalne meje izgubljajo pomen, svet postaja manjši in družbe vseh velikosti se soočajo z globalizacijo. Sile globalizacije spreminjajo dobavno verigo in posledično v zadnjem desetletju mednarodna podjetja selijo svojo proizvodnjo v manj razvite države, kot je Kitajska. Rezultat tega je povečan kitajski delež globalne proizvodnje, merjen glede na dodano vrednost, ter povprečna dvomestna letna rast kitajskega izvoza. Prav tako se pričakuje, da bo leta 2020 Kitajska prehitela Združene države Amerike in postala največji izdelovalec na svetu (Harney, 2008a, str. 4).

Povečano zunanje izvajanje in trend globalizacije sta povečala pomembnost družbene odgovornosti, saj so pogoji v razvijajočih se državah opisani kot slabi v primerjavi s pogoji v razvitih državah. Povečala so se družbena pričakovanja do etičnega obnašanja in družbene odgovornosti, posledično pa so mednarodna podjetja prevzela odgovornost za delovne razmere v tovarnah dobaviteljev v razvijajočih se državah (Egels-Zandén, 2007, str. 45). Glede na višja družbena pričakovanja so mednarodna podjetja preusmerila svojo pozornost na družbeno odgovornost z oblikovanjem etičnih kodeksov, in da bi zagotovila etično obnašanje v proizvodni verigi, zahtevajo upoštevanje teh kodeksov.

Družba pričakuje, da bodo proizvajalci izdelkov, v tem primeru kitajska izvozna podjetja, operirali in delovali sočasno v okviru kitajskih zakonov ter etičnih kodeksov mednarodnih podjetij. Kitajska je oblikovala več kot 20 zakonov, ki se nanašajo na družbeno odgovornost, le-ti se raztezajo od zakonov o delu, zakonov o zaščiti okolja do zakonov o varnosti produkta (Zhihai, 2007, str. 84). Glavni elementi družbene odgovornosti na Kitajskem so okolje ter človekove pravice in dejanja (Buhmann, 2005, str. 71–77). Problemi, s katerimi se podjetje ukvarja v okviru človekovih pravic in v povezavi z družbeno odgovornostjo, se raztezajo od delovnih pravic do zdravstvenih problemov, vendar so omejeni samo na socialne in ekonomske pravice. Zaščita delovnih pravic je regulirana z zakonom o delu in zakonom o delovnih razmerjih. Zakon o delu opredeljuje delovni čas, minimalno plačo, pravico do zdravstvenih storitev in varnosti.

Čeprav se kitajska podjetja formalno strinjajo, da bodo izpolnjevala etične kodekse in operirala v okviru zakona, to ne zagotavlja upoštevanje le-teh (Krueger, 2008, str. 115). Prvi in najpomembnejši razlog za neupoštevanje etičnih kodeksov in zakonov so kulturne razlike. Kitajska kultura se močno razlikuje od zahodne, ki ima višjo stopnjo individualizma v primerjavi s kitajsko. Ta je karakterizirana z visoko stopnjo kolektivism, ki je glede na zahodna prepričanja neetično. Visoka stopnja kolektivism pomeni, da so ljudje integrirani v močne skupine, kjer vsak član skupine deluje v najboljše interese skupine. Trije elementi kitajske kulture *Guanxi*, *Renqing* in *Quanzi* so prav tako pomembni in jih moramo vzeti v obzir, ko sestavljamo kodekse, saj predstavljajo stebre kitajske kulture. Naslednji pomemben element v kitajski kulturi je koncept hierarhije, ki se kaže v paternalistični vlogi managerjev.

Kultura ni edini razlog, da se tovarne ne obnašajo etično, ta problem poveča tudi karakteristika delovne sile. Večino delovne sile sestavljajo migracijski delavci, ki pridejo v kitajska mesta, da bi zaslužili čim več v kratkem časovnem intervalu. Tako so delavci bolj naklonjeni delu z nadurami in so pripravljeni zapustiti firmo, ki jim ne omogoča dela v nadurah. Migracijski delavci pridejo v večja kitajska industrijska mesta, da bi delali in služili, saj so plače v mestih višje v primerjavi s tem, kar bi zaslužili doma. Naslednja karakteristika Kitajcev, ki jo moramo vzeti v obzir, je njihova skromnost in percepcija etike, ki se močno razlikuje od vidika zahodnega sveta. Kitajci so zelo skromni ljudje, ki so zadovoljni z majhnimi stvarmi, njihovo zadovoljstvo pa ni pogojeno z denarjem, ampak bolj s socialno varnostjo ali občutkom pripadnosti.

Tretji razlog za neupoštevanje etičnih kodeksov so nizke cene izvoznih izdelkov, ki jih je težko vzdrževati. Cene kitajskega izvoza so tako nizke zaradi intenzivne in koncentrirane konkurence. Povprečno imajo družbe od 100 do 200 konkurentov, ki kopirajo prednosti drug od drugega in si nižajo marže, da bi pridobili naročila (Harney, 2008a, str. 40). Cene so tako nizke tudi zato, ker nekateri večji kupci zahtevajo letne ali celo četrletne popuste na cene. Pri tako nizkih cenah kitajska podjetja nimajo denarja in sredstev, da bi izvajale družbeno odgovornost, ki zviša stroške proizvodnje in zniža konkurenčnost podjetja. Na kratko, tovarne na Kitajskem, ki uvajajo družbeno odgovornost, so prikrajšane in ovirane. Lokalni pogoji, v katerih tovarne operirajo, dodatno otežujejo delovanje, saj se morajo tovarne soočiti z električnimi izpadi in poplavami, ki dodatno višajo stroške. Vse to je ojačano z zahtevami mednarodnih podjetij, ki pričakujejo, da bodo tovarne izdelale veliko količino izdelkov v kratkem časovnem intervalu za najnižjo možno ceno, medtem ko spremenijo naročila v zadnjem trenutku ali pa potrdijo končno specializacijo produkta pozno v procesu produkcije. Vse naštetu dodatno viša stroške proizvodnje in otežuje delo kitajskim proizvajalcem. Prav tako mednarodna podjetja podaljšujejo svoje roke plačila in s tem povzročajo finančne probleme kitajskim tovarnam, ki včasih nimajo niti sredstev za izplačilo plač.

Naslednji razlog se ukvarja z izvršitvijo etičnih kodeksov. Mednarodna podjetja uporabljajo etične kodekse, ki temeljijo na idealih namesto na resničnosti. Med kodeksi in lokalnimi zakoni in praksami je velika vrzel. Mednarodne družbe osredotočijo svoj trud in svoja sredstva na kodekse in opazovanje, ob tem pa ignorirajo proces izvršitve. Uporabljajo model, ki se imenuje »podredi se ali umri«, kjer tovarne dobijo nekaj mesecev časa in zelo malo podpore, da popravijo napake. Če v tem času tovarna ne odpravi napak in ne začne operirati v okviru etičnih kodeksov, mednarodna stranka umakne svoje naročilo brez ozira na tovarno ali zahteve, ki jih uveljavljajo. Kitajske izvozne tovarne se srečujejo z različnimi etičnimi kodeksi, ki se uveljavljajo na različne načine in s tem povzročajo zmedo in višje stroške izvedbe. Managerji tovarn večino časa skrbijo, da zadovoljujejo korporacijske stranke namesto, da bi vodili svoj posel. Za dodatek pa so etični kodeksi v konfliktu z drugimi cilji tovarne, kot sta točna dostava produkta in dobičkonosnost. Ta dva cilja sta večinoma dosegljiva le, če tovarna ne operira v okviru etičnih kodeksov in zakona.

Zaradi poslovnega modela mednarodnih družb z veliko verigo dobaviteljev kitajske tovarne obenem ne vidijo razlogov, da bi se držali kodeksov, saj se te družbe pogosto selijo od enega dobavitelja do drugega, da lahko izkoristijo nižje cene, boljše kakovost ali hitrejše dobavne roke. Mednarodne tovarne z veliko verigo dobaviteljev razpršijo svoje naročilo med številne tovarne in predajo samo majhen del svojega naročila specifični tovarni. Posledično predstavljajo le majhen delež proizvodnje, zaradi česar tovarna ni pripravljena operirati v okviru kodeksov, saj stroški izvedbe družbene odgovornosti ne opravičujejo koristi. Dodaten razlog za neupoštevanje kodeksov je prepričanje kitajskih managerjev, da za svoja dejanja ne bodo odgovarjali oziroma da njihovo neetično delovanje ne bo odkrito. Njihovo prepričanje temelji na dejstvu, da Kitajska nima zadostnega števila nadzornikov – ocenjeno je namreč, da mora en inšpektor nadzorovati 34.727 delavcev (Harney, 2008a, str. 67). En inšpektor tako lahko pregleda dve tovarni na dan, s čimer se zniža kakovost nadzora in v večini primerov nadzornik spregleda večino kršitev, ki se dogajajo v tovarni. Poleg tega pa imajo inšpektorji izredno nizke plače, zaradi česar so pripravljene sprejeti tudi podkupnine ali darila in posledično spregledati kršitve znotraj tovarne.

Končni razlog za neupoštevanje etičnih kodeksov je proizvodna kriza, ki je zajela svet in najbolj prizadela razvijajoče se države, kot je Kitajska, kjer se je opazilo večje upadanje naročil. Opaža se nagel padec cen in povpraševanja po kitajskih izdelkih. Nadalje se opaža dvig vseh stroškov in pomanjkanje izkušenih delavcev. Vsi ti dejavniki so pripomogli k ustavljanju kitajskih poslov in k zapiranju mnogih kitajskih firm. Ob tem pa večina mednarodnih kupcev svoja naročila seli iz Kitajske v druge razvijajoče se države, kot je Vietnam. Tako je pridobitev naročila in preživetje postalo glavni cilj večine kitajskih tovarn, brez ozira na zakone in etične kodekse, ki bi še dodatno zvišali stroške.

Učinek vseh teh razlogov je, da kitajska tovarna ni sposobna operirati v okviru etičnih kodeksov in posledično ponareja dokumente. Ocenjuje se, da 90 odstotkov kitajskih tovarn ponareja svoje knjige, kar se je na Kitajskem razvilo v industrijo (Harney, 2005, str.13). Nastala je nova vrsta kitajskih svetovalnih družb in inženirjev za ponarejanje, ki pomagajo tovarnam prikriti svoja neetična dejanja in kako opraviti inšpekcijo. Ponujajo nasvete za izdelavo ponarejenih, vendar na videz pristnih dokumentov ter poučujejo zaposlene in njihove delodajalce. Z namenom zakrivanja neetičnih operacij se je razvil računalniški program, ki nastavi začetek in konec žigosanega delovnega časa tako, da se ne pokaže nelegalnih nadur. Manj tehnološki načini so dvojno vodenje knjig, scenariji za zaposlene, ki se ga morajo naučiti v primeru intervjuja z inšpektorjem, ter sistem nagrajevanja, kjer zaposleni prejmejo nagrado, če tovarna pozitivno prestane inšpekcijo. Kitajske tovarne so postale pravi mojstri v ponarejanju dokumentov in pri zakrivanju neetičnega delovanja, kar onemogoča njegovo odkritje. Managerji si dodatno pomagajo z uporabo interneta, kjer so ustvarili mrežo informacij, ki jim omogoča izmenjavo nasvetov, izkušenj ter postavljanje vprašanj.

Kitajske tovarne uspešno ločijo formalno pregledane dele tovarn od dejansko operacijskih delov z uporabo dvojnih knjig, kar pomeni, da ima tovarna en set ponarejenih dokumentov za inšpekcijo in en set originalnih dokumentov za lastno evidenco, ki so v lasti managerjev. V

primerih, kjer ponarejanje ni dovolj, se kitajska podjetja obrnejo k podkupninam. Višina podkupnine je odvisna od velikosti podjetja in se lahko pokaže na različne načine, od daril do denarja. V primeru, ko podkupnina inšpektorja ne zaleže, tovarna podkupi državne uradnike. Ustvarijo si prijetna razmerja z uradniki, ki jim v zameno za darila spregledajo kršitve zakonov.

Z namenom znižanja stroškov izdelave nekatere kitajske tovarne zamenjajo specifično določene mednarodne kemikalije za kemikalije, ki so lokalno na voljo, saj so prepričani, da končni kupec ne bo opazil razlike. Lokalne kemikalije stanejo manj kot standardizirane. Ob tem nekateri izdelovalci poskušajo zvišati dobiček tudi tako, da znižujejo kakovost uporabljenega materiala, kar počnejo brez vednosti strank. Nekatere kitajske družbe uporabljajo tudi »senčne« tovarne, ki niso uradno registrirane in tako v očeh zakona ne obstajajo. Posledično ne plačujejo davkov in se ne držijo zakonov o delu, zdravju in varnosti. Managerji za to vrsto tovarn ne vodijo knjig in tako uspejo njihov obstoj obdržati pod radarjem vlade. Prostori »senčnih« tovarn se nahajajo v skrivnostnih zgradbah, ki so bile zgrajene v mehurčku nepremičninskega razvoja, njihova namembnost pa je nejasna. Splošni delovni pogoji v senčnih tovarnah so zelo nizki. Takšne tovarne zaposlujejo delavce, ki so pripravljene delati nadure brez zdravstvenega zavarovanja ali delovnih pogodb. Poleg senčnih tovarnah imajo kitajska podjetja tudi tovarno za demonstracijo, kjer vse delo teče v okviru etičnih kodeksov mednarodnih podjetij, brez ponarejanja dokumentov ali učenja delavcev. Namesto tega se za večino proizvodnje uporabi »senčne« tovarne, kar omogoči kitajskim managerjem, da izkoristijo kitajsko delovno silo, ki dela dolgo in težko.

Vodje kitajskih tovarn za prekrivanje svojega neetičnega vedenja uporabljajo vse omenjene metode, od poneverbe dokumentov do »senčnih« tovarn, saj se domneva, da ni nobenega drugega načina, ki bi jim omogočil sočasno izpolniti zahteve mednarodnih podjetij ter proizvodnjo izdelkov po nizkih kitajskih cenah. Rešitev za boljše delovne in operativne pogoje na Kitajskem leži v mednarodnih podjetjih in v kitajskih izvoznih tovarnah.

Če uporabimo opisani tridimenzionalni model družbene odgovornosti ter vanj vstavimo mednarodna podjetja in kitajske izvozne tovarne, lahko določimo potrebne ukrepe za vključitev družbene odgovornosti v podjetja. Glede na model si podjetja prizadevajo, da se njihova dejanja uvrstijo v sredinski odsek, torej ekonomsko/zakonsko/etično področje, kjer so izpolnjene vse tri odgovornosti. Kitajske izvozne tovarne se nahajajo znotraj tridimenzionalnega modela zgolj v ekonomskem področju, saj so njihova dejanja gospodarna, nezakonita in neetična. V prizadevanju, da bodo njihova dejanja ekonomska, etična in v skladu z zakonom, morajo kitajska podjetja spremeniti svoj način poslovanja. Primer odločitve v to smer je odklonitev naročil, ki jih ne morejo izpolniti v roku zakonsko določenega delovnega časa. Prav tako je potrebna sprememba v načinu vodenja; vodja naj bi ravnal etično ter tako postal vzor ostalim zaposlenim. Glavni cilj podjetja je izpolniti zahteve zaposlenih.

Na drugi strani so mednarodna podjetja situirana znotraj tridimenzionalnega modela družbene odgovornosti, in sicer v ekonomsko/zakonskem področju, saj so njihova dejanja gospodarska, v skladu z zakoni in neetična. V prizadevanju, da bodo njihova dejanja padla v sredinsko področje, morajo mednarodna podjetja izboljšati svoje etično ravnanje, kar pomeni, da morajo pri svojih odločitvah upoštevati interese in želje interesnih skupin, v tem primeru interese in želje kitajskih tovarn. Glavna rešitev za izboljšanje pogojev je v grajenju dolgoročnih, stabilnih odnosov z dobavitelji, torej s kitajskimi tovarnami. Te rešitve je mogoče doseči s podporo kitajskega pravnega sistema, ki se mora spremeniti, le-ta pa mora postati zanesljiv in predvidljiv kanal za reševanje sporov. Kitajska mora znatno razširiti inšpekcije tovarn za kršitev delovnih razmer ter od kršiteljev izterjati kazni in se tega tudi dosledno držati.

SKLEP

Delovni in operativni pogoji v kitajskih izvoznih podjetjih so rezultat igre »mačke in miši« med kitajskimi in mednarodnimi podjetji, ki so na lovu za nizkimi cenami in nižjimi stroški. Oboji nosijo krivdo za slabe razmere na Kitajskem. Kitajski pravni sistem dodatno prispeva k problemu, saj ne ukrepa, ko so zakoni kršeni. Da bi dosegli spremembe na Kitajskem, bi bili potrebni drastični ukrepi na vseh področjih poslovanja.