

# Wisdom --“The Making of Morality”

## ----- A Tentative View on Corporate Citizen Phenomenon and Corporate Social Responsibility

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**ABSTRACT:** There is a closely interdependent relationship between enterprise interest and public interest, which is an inexorable law of social and economic development. However, at the present level of social and economic development, this interdependent relationship manifests itself mainly with large multinational corporations and natural monopoly enterprises;

Enterprise's public strategy, which deals with the relation between enterprise interest and public interest, is an integral part of the enterprises' core philosophy and is also an important precondition that affects the establishment and implementation of enterprise's commercial strategy.

### 1. Corporate Citizen Phenomenon

The word “citizen” originated from ancient Greece. The Greek word “Polites (citizen)” is derived from the word “Polis (city)”, which means “a person who belongs to the Polis”. Opposite to it, is of course a person who does not belong to the Polis, i.e. a “noncitizen” -- “the person who lives away from his native place”, “slave” and “alien” -- persons who do not have identity or qualification in the Polis community and are not responsible for and of course do not have the right to participate in the Polis' affairs. Even they live in the Polis, they are persons who have no bearing on it.

#### 1.1 Corporate Citizens in China

In 2005, China Corporate Citizen Commission was established and held the annual selection of best corporate citizens through appraisal. Cheng Siwei and Jiang Zhenghua were nominated as honorary chairmen of the Commission. Since the last two years, 30 multinational corporations and large-sized Chinese enterprises have won the titles of “best corporate citizens”, including Coca Cola, IBM, General Electric (China) Corporation, Intel, Motorola, Siemens, Panasonic, HSBC, China Mobile, Ping An Insurance (Group) Company of China and etc.

On corporate citizen, these successful enterprises give different but basically similar annotation:

Hewlett-Packard (HP) always believes that to become a good enterprise, we should become a good citizen first. We have respect for our duties to the society and address ourselves to making contributions to the economic growth and social development of each of the countries and communities in which we stay. Over a long period of time, HP has thrown itself into the establishment of partnership, the standardization of our practice in corporation management and in environmental protection, and the elimination of digital gap by means of extensive, deep-going community activities and the “World E-inclusion” program, and aims at becoming the paragon of global corporate citizens.

GE (China) Corporation's Chairman and Chief Executive Officer Sun Lida thinks that, the tenet of a successful and respectable corporation is being responsible for the society.” According to the first Corporate Citizen Report issued by GE., in 2004, GE dismissed altogether 125 employees and took disciplinary action against 243 staff because they violated the laws or went against morality. Since 2002, the Corporation has terminated the contracts with about 200 suppliers because the latter failed to observe the standards on environment, health, safety or labor.

Microsoft considers that as a successful global corporation, they have the responsibility of exerting their resources and influence to make an active contribution to the whole world and the people thereof. They believe that adhering to the global corporate citizen strategy throughout business operation is the best method for achieving these serial objectives. To realize this ideal, they had discussions with Microsoft's staff and consult with government sectors and enterprises around the world. They hope to create a framework of corporate citizen so as to influence and give impetus to other aspects of their businesses.

“Standards on the Appraisal and Selection of Excellent Corporate Citizens of China” has specified altogether 7 main indexes, namely: responsible for the owners, for the staff, for the consumers, for the suppliers, for the government, for the environment, and for public undertakings.

#### 1.2 Global Commercial Hotspots

At Davos World Economic Forum held in May 1999, United Nations Secretary-General Kofi Annan put forward “Global Compact Program” and the program was officially initiated in September 2000. The representatives of 50-odd well-known multinational corporations promised to take concrete actions within the framework of “Global Compact” and, while promoting the establishment of globalized market, to improve workers' working environment and raise the level of environmental protection, for the benefit of people of the whole world. The core of Global Compact is to require enterprises to comply with, support and implement

in their respective influential areas a suite of nine basic principles on human rights, labor standard and environment.

Global Compact is a voluntary program and is not compulsory; however, by 2004, 70 countries and more than 1500 enterprises have officially acceded to the agreement, including not only large multinational corporations such as British Petroleum, Carrefour, Daimler, Chrysler, DuPont, Hewlett-Packard, Novartis, Nike, Shell and etc, but also many small- and medium-sized enterprises of developing countries and countries at their transition stages.

“Promoting a European Framework for Corporate Social Responsibility -- Green Papers” issued by European Union in 2001 put forward four internal dimensions and four external dimensions of enterprises’ social responsibility.

The four internal dimensions are human resource management, workplace health and safety, adaptability to changes, and management of environmental impact and natural resources;

The four external dimensions are local community, commercial partners, suppliers and consumers, human rights, and global environmental concerns.

## **2. Enterprises’ Social Responsibility = Commercial Morality?**

Commercial giants are increasingly paying more and more attention to the living environment of human beings, social fairness and harmony, and furthermore, to partners, consumers and employees. The media praise successful enterprises’ commercial morality and the advent of an era that has “a sense of responsibility”, and attribute this phenomenon to philanthropic act and commonweal.

However, there exist many different voices, including reflections and doubts.

Why did not this phenomenon appear earlier, or later? How will we anticipate the development of such responsibility and glory? When can this “act of kindness” become the general reality of the commercial sectors rather than something of industrial giants alone?

We also have to say that when we talk about morality, there is inevitably someone who talks about “hypocrisy”. Since no final conclusion has yet been reached on the function mechanism of individual morality, it seems that commercial “morality” is more perplexing.

Let us put aside these questions for the time being and come back to an ancient proposition.

### **2.1 Eternal Conflict -- “Mandeville’s Paradox” and “Tragedy of the Commons”**

Reflections on and disputes about individual interest and public interest go with the appearance and development of human society. Around the Industrial Revolution from which modern industrial countries originated, these reflections gradually became systematic theories. In the famous “The Wealth of Nation”, Adam Smith’s logic is that individuals’ behavior driven by their own interests finally contributes to public welfare -- “each individual neither intends to promote public interest, nor he knows how much public interest has

been promoted. He cares about only his own safeguard and his own gain. An individual is led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of the society more efficiently than when he really intends to promote it.”

The following two traditional viewpoints form an interesting contrast.

#### **“Mandeville’s Paradox”**

Someone said that this was Adam Smith’s inspiration for his “The Wealth of Nation”.

In 1720, Bernard Mandville published a book titled “Fable of the Bees, or Private Vices, Public Benefits”. He compared the human society to a honeycomb, and the bees performed all of the human beings’ behavior in miniature. In “this nation of bees”, each bee was seeking its own benefit frenziedly, and astonishingly, when each bee was seeking its own benefit frenziedly, the whole honeycomb took on a flourishing look. However, when the vicious bees suddenly became awakened and requested the God to make them kind, righteous and honest, the whole nation fell into a depression.

This is the famous “Mandeville’s Paradox” -- “vicious” selfish desire bears a good fruit of public benefit. He thought that although morality condemns selfish behavior, selfish desire and the private vices subject to selfish desire are exactly the source of social prosperity; without this source, public benefit will become “water without a source and a tree without roots”. Such flowers of goodness as intention of commonweal and sense of morality will bear the evil fruit of poverty and hypocrisy.

#### **“Tragedy of the Commons”**

After experienced a great deal of practice in various economic forms, the economic circles continued to reflect on and amend traditional theories of economics. In 1971, Yale University of the U.S. published “Three Worlds of Labor Economics” written by Lloyd Reynolds, and this representative work of comparative economics reviewed and reflected on the laws of economic development of different countries with different economic systems.

In the year of 1968 before this book came out, Hardin, an American scholar, published an article titled “Tragedy of the Commons” in “Science”. In Britain, there was once such a land system -- feudal lords set apart from their own manor a tract of uncultivated land as pastureland (called “common”) and opened it to herdsmen gratis. This was originally a thing that brings benefit to the people; however, as the grazing was gratis, each herdsman raised as many cattle and sheep as possible. With the uncontrolled increase of cattle and sheep, the common pastureland finally became barrens due to “overburden”, and all of the herdsmen’s cattle and sheep starved to death in the end.

“Tragedy of the Commons” is a fable far beyond environmental and ecological issues. Putting aside the controversy originally used to discuss the issue of “property right”, some economists think that the true issue involved in “Tragedy of the Commons” is how individuals can avoid the loss of public interest resulting from exhaustion of resources when utilizing the resources the property right of which is impossible of clear? In the world where people live, there

are many resources, and also the most important resources for the existence of people (natural resources such as sunlight, air and etc, good public security and moral atmosphere of the society, and cultural resources), the property right of which is often hard to define. How can we avoid “Tragedy of the Commons” when using these seeming gratuitous resources?

Mandeville’s “Fable of the Bees” is a basic metaphor of modern liberalism economics and economic ethics. Its theoretical leitmotiv is to advocate selfish desire, believe that the market has a miraculous power to transform and purify private vices, and maintain that behavior stemming from moral feelings is not only infeasible but also possible of endangering public benefit. “Tragedy of the Commons” originally implied the significance of defining “property right”.

## 2.2 Morality and Motivation

Since economics is a science, we have reason for going on with our belief in the limitation of moral constraint in economic activities.

Individual morality and social morality are one of the basic elements that sustain market economy. Generally speaking, morality can break prisoner’s dilemma, ease the contradiction between individual rationality and group rationality, and maintain the stability and development of the social and economic system as a whole. However, the course of morality formation itself is an issue of economics. When the benefit brought about by immoral behavior surpasses moral satisfaction, the function of moral constraint will become invalid and vice versa.

Conversely, if institutional design should cause or drive individuals to go against general social ethics and act in conformity with economic rationality, which is called “moral hazard” in economics. Moral hazard always exists, and it is universally possible that an insured person is less enthusiastic about risk avoidance. However, from economists’ viewpoint, **it is an issue of motivation rather than an issue of morality that should be addressed.**

The society’s enthusiasm for morality undoubtedly expresses the active response to the present situation and more expectations. However, people often say that enterprises are profit-oriented, and it seems that equating enterprises’ social responsibility with morality or commercial morality is not universally convincing. Summing up the past experiences, we are worried about such enthusiasm that often hurts a really good and objective motivation and has an adverse effect on institutional arrangement. As for the numerous participants in economic activities, trying to find out the mechanism of the formation of a behavior is more important than following the appearance.

**Therefore, it is necessary for us to reflect on what has promoted enterprises’ concern for social responsibility and public interest, what enterprises pay more attention to social responsibility, and how corporate citizens address the internal relation between enterprise interest and public interest?**

## 3. New Economy Age and Enterprises’ Social Responsibility

A leadingly-changing globalize economic environment has changed the world, and it is changing every aspect of our life. To understand enterprise citizens’ behavior, we should firstly understand the general environment where the enterprises exist and develop.

The start-up economic thought, which appeared in the thirties of the last century, attracted extensive social attention in the background of globalization and technical transformation at the end of the last century, and become hot topics in the webpage of many universities’ commercial colleges such as Harvard, RPI and etc. It emphasizes that the environment of commercial competition is changing by leaps and bounds, enterprises should use flexible strategies to adapt to the environment that is changing with an accelerated speed, and a great number of nonlinear problems need to be solved in a nonlinear way. It is not only applicable to the start-up of small- and medium-sized enterprises, but also emphasizes the start-up behavior within large enterprises. GE’s 20 years of transformation under the leadership of Mr. Jack Welch is regarded as a typical case of start-up economic thought.

### 3.1 Main Features of the New Economy Age

The New Economy Age has the main feature of “leaping change” rather than gradual change. The mighty advance of productivity and the emergence of a multitude of destructive technologies have changed traditional economic patterns and lifestyles, the bounds of different industries become more and more indistinct, and innumerable businesses are reorganized.

The main features of the New Economy Age are shown in the figure below:

In this background, enterprises’ modes of competition and the environment where they exist have also revolutionarily changed. At the same time, a series of important environmental factors that have an effect on the development of enterprises come forth.

### 3.2 Environmental Factors that Have an Effect on the Development of Enterprises

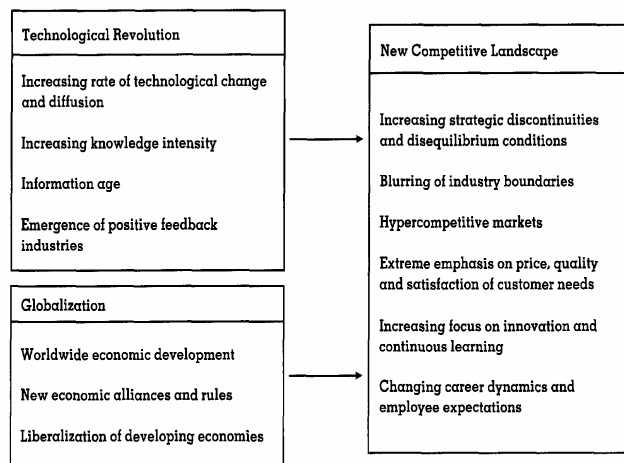


FIGURE 1  
The New Competitive Landscape.

### 3.2.1 Environmental and Ecological Pressures

Maybe no data are needed to prove the effect of this factor.

Pressures from population, energy and pollution are changing our lifestyle as well as economy and politics.

While economy grows, people need to reflect on something originally irrelevant to the growth. Although this reflection is not a new thing, from the extent of its influence on politics, economy and life, it has become one of the main forces that drive the society. In making decisions, enterprises frequently have to place the environmental and ecological factors on the list of primary issues.

### 3.2.2 Evolution of Public Policies

Along the universal course of the economic development of a country, the evolution of developed industrial countries' public policies generally underwent the following development stages.

- Promotion of economic development;
- Scale and macro regulation and control;
- Environment and public security;

The United States' Energy Policy Act of 2005 is a typical sign. This environment and security in the Act not merely refer to ecological environment, but social, economic and ecological environment in a broad sense; public security firstly refers to social and economic stability, then extends to the safeguard of the country's basic interest, such as energy safety, homeland security and etc, and comprehensively, it refers to a healthy, well-off and harmonious society.

Similarly, the evolution of Canadian energy policies underwent several stages, i.e. the sixties of the last century, with emphasis upon development; the seventies and the early eighties, with emphasis upon national security; the mid and late eighties, with emphasis upon market prosperity; and the stage that began from the nineties, in which environmental protection became the concern.

Theoretically, in market economy, the main means of allocation of resources is the market mechanism. However, the spontaneous function of the market mechanism may bring about some inefficient results: external effect, efficiency loss and unfair distribution resulted from monopoly, destruction of productivity due to vicious competition and etc. "Market failure" constitutes an important cause for government intervention. From the viewpoint of legislative thinking, the goal of these public policies is to try to check private decisions that fail to give due consideration to social interest (or decisions that stand for local interest). The various policy tools aim at reducing market prices and having an effect on enterprises' responsibility for public interest (environment, social welfare) and etc, and finally benefiting the public.

Practically, a basic undertaking in the course of the evolution of public policies is to guide and regulate natural monopoly industries and enterprises and to gradually break the monopoly. Developed countries' marketization reform in telecommunication industry, energy industry and power

industry are examples. Due to historical reasons and technical restrictions, these areas are defined as natural monopoly markets; however, as technology progresses, these monopolies can be broken. The telecommunication industry in the U.S. and Europe has basically realized deregulation, and this trend is functioning in other countries. In the reform of the electric power market which has nowadays become the hotspot worldwide, various attempts have been made, and the transformation of traditional monopoly power network into a power transmission corporation is one of them. National Grid, a major power network operator of New York State of the U.S., is a corporation under British private capital.

Both the new Energy Policy Act and the reform of monopolistic market involve the means of promoting **enterprises' internalization of social cost** through guidance and regulation.

Thus we cannot help but call to mind "The Problem of Social Cost", the writings of Coase. Social progress and development must be paid for; otherwise it is impossible to make any social progress. However, the issue is not to sigh with regret why this cost is a must, but how to make this cost be borne as possible by persons who enjoy the gains. The trend of the evolution of public policies at the present time is precisely so. As for natural monopolists, when the environment where they exist and develop has substantially been changed, they should:

- Treat properly the evolution of public policies;
- Understand correctly social and economic changes behind the evolution of public policies;
- Be capable of using good judgment on the future trend of evolution of public policies;

### 3.2.3 The Rise of Public Forces

In the parliamentary building of New York State, an official once said to a group of visitors half jokingly, "this building is not bad, it was built twenty years ago, but now it is more and more difficult to build such a building".

In the U.S. and other developed countries, in the process of the development and operation of new projects that have a major impact on the society, public forces increasingly manifest themselves in the decision-making mechanism. When economy developed to a certain stage, the appearance of this mechanism is universally inevitable. It not only helps to equilibrate the composite cost and efficiency of the society, but also helps to optimize the life-cycle composite cost effectiveness of the projects for a long operational period. **This is also an inevitable outcome of the internalization of enterprises' external cost in the course of the evolution of public policies -- when making decisions, enterprises must give more considerations to the external cost which they formerly do not need to pay for, and active responsibility becomes passive responsibility like a donation of money becomes ratepaying.**

Certainly, in most cases "the public" is always a relatively abstract concept, and meanwhile the extent of this concept is

uncertain. In some cases, local government also becomes a part of the public that the project developers face, and it stands for a portion of the public interest of the locality. At the same time, the public's choices are diversified. In fact, according to their practice, western nations are accustomed to regarding the public as a collection of stakeholders.

The construction of wind-power projects in the U.S. is an interesting example. Many people hope to use clean energy to improve the environment, while at the same time no one wants to see a wind-driven generator just erecting on the lawn nearby their house, "ugly and noiseful". In addition, over 90% of the residents (including government officials) have undoubtedly realized that the construction of new energy projects will greatly stimulate the development of local economy. However, synthesizing these factors, "site selection" remains the primary problem to be solved by wind-power investors because any person who welcomes wind-power investment does not have the right to decide to place the wind-driven generator in others' backyard. The government has no right and obligation to intervene directly in the negotiation between the developer and the affected residents.

Fortunately, most of the residents welcome the project developer to make up for their acceptable environmental impact with reasonable compensation. However, this "reasonable" here is relative, and as for an area that has a dense population and a complex composition of society, the efficiency of enforcement of this measure warrants consideration because the determination of transaction cost becomes more complex. Meanwhile, under different circumstances, what the enterprises should do not merely includes paying relatively reasonable "considerations" to individual residents, but also includes communication with the public (various propaganda and public service activities), paying for relatively costly public facilities (schools, museums, parks and etc) and so on, so as to ease the conflict of interest and the disequilibrium of the occupancy and allocation of the resources by taking comprehensive measures that improve public welfare of the society. All of these constitute large enterprises' daily activity of public management of stakeholders, and in a sense, this can also be regarded as a behavior of redistribution of social revenue similar to transfer payment.

For sure, with social and economic development, no matter what country it is, the government will increasingly tend to set just down the rule of game and supervise the enforcement of the rule, and the mediation of conflicts will frequently be performed by so-called "neutral part N", and the rule itself will seek as far as possible the equilibrium of different stakeholders. From the viewpoint of legislation, to protect other persons' interest is to protect that of one's own because the roles are ever-changing, and this is why generally more and more public interest claims are recognized and legally protected.

On the other hand, the economic development and the changes in public policies make the public's spontaneous choice increasingly tend to express itself as a social force, and the magnitude of this force depends on the level of social and economic development and the state of society.

In 2003, a Hill & Knowlton/Harris interactive questionnaire survey showed that when Americans find that an enterprise

acts negatively in respect of social responsibility, as high as 91% of the persons will consider purchasing another corporation's products/services instead; 85% of the persons will tell this information to their families and friends; 83% of the persons will refuse to invest in that enterprise; and 80% of the persons will refuse to work in that corporation.

A study on social innovation carried out in Aspen College between 1999 and 2001 showed that over half of MBA students choose to take on another job when they find their values in conflict with those of the corporation they work for.

**It is thus clear that because "rights" are progressively guaranteed by public policies and the transaction cost is rising, the once abstract and "weak" public increasingly tends to have a substantial influence on the "strong" enterprises and force them to make decisions that are more favorable for public interest.**

### 3.2.4 Globalized Mode of Existence

Globalization is a typical double-edged sword.

While obtaining more opportunities, enterprises are exposed to more risks. Generally speaking, it is just that the uncertainty is increasing. In local areas, environmental and ecological pressures, the evolution of government's public policies and the rise of public forces have a substantial impact on enterprises' strategies and business operation, and the globalization, which is technically based on logistics technology and digitization, disseminates and magnifies this impact.

Large multinational corporations and natural monopoly enterprises benefit more from this, but at the same time they are confronted a greater menace.

A globalized enterprise, which can obtain more extensive resources and markets due to globalization, is apt to form at the present stage a multinational strategic alliance with others, share the comparative advantage, and enjoy the good name of "giant" and "empire". However, the above-mentioned three changes can give rise to a chain effect due to globalization. For example, developed countries' concern for environment and ecology will have an influence worldwide; a country's legislative measures taken on some environmental incidents will have a demonstration effect on the changes of public policies of other countries; and with the exception of residents' individual partiality, ordinary residents' choice on public affairs will have a more striking demonstration effect. Therefore, this is why traditional energy industries give more opinions on enterprises' public responsibility -- if we pay attention to petroleum corporations' advertisements, it is not difficult for us to find out this subtle change. The globalized mode of existence makes the formerly regional crises become global crises, and regional internalization of external cost will quickly spread apart and become an internalization of external cost in a large area. Thus, any irresponsible behavior on public affairs will be liable to give rise to a chain of enterprise crises.

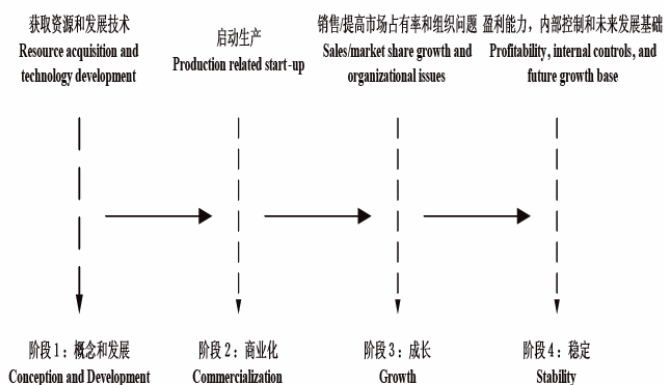
In other words, as for a multinational commercial giant, the one who can easily hit his vital point and quickly hit him down is not likely his rivals in the market; however, an

unreal “public”, which brings together local residents’, government’s, NGOs’ and rivals’ forces, will easily make him hit by the “moral” fault of himself and give rise to a huge cost (direct/indirect cost), and even make him disappear inconceivably (case). The “crisis management” which originated from this background quickly becomes a hot topic of social economy and “a obligatory course” for commercial giants and CEOs. (Please see Table 1)

From the figure above, we see that in this swiftly-changing social and economic environment, the environment where the enterprises exist and develop is closely related with the public, and the interdependency relationship between enterprise interest and public interest is unprecedented strengthened. However, the figure above also shows that because social and economic development shall undergo several stages and due to the disequilibrium of social and economic development, this “interdependency relationship” at present is not a widespread phenomenon, and enterprises that are closely related with the New Economy Age such as multinational corporations, natural monopoly enterprises and etc will be affected to a greater extent. This is why the strengthening of the interdependency relationship between enterprises and the public firstly influenced a number of highly related enterprises to take foresighted commercial action.

#### 4. General Law of the Development of Enterprises and Enterprises’ Social Responsibility

In general,, the process of enterprise development includes “moneymaking stage”, “scale stage” and “corporate citizen” stage.



Every occurrence of enterprises’ behavior has a deep-seated internal cause, and an enterprise’s development stage will determine the basic mode of the enterprise’s behavior. Enterprises at different development stages have the following important features: (Please see Table 2)

At the first three development stages of enterprises, the interdependency relationship between enterprise interest and public interest is relatively weak because enterprises’ risks and opportunities mainly come from relatively direct market competition. The “supreme criterion of being honest and trustworthy” followed by multinational corporations at present does not have influence upon the core philosophy of enterprises at these stages; on the contrary, concerning enterprises’ social responsibility, moral constraint functions

unrestrainedly, or mainly in form.


Whereas in case of natural monopoly/oligopoly, enterprises’ cooperation motivation is stronger than their competition motivation, and different enterprises tend to provide homogenous products and services. In the new environment featuring globalized competition, the public/stakeholders’ choice that the enterprises face becomes a new challenge.

Certainly, at the above-mentioned different stages, the relation between enterprises and their external environment is always based on the establishment of moderate trust relationship, so as to achieve the final commercial goal. That is to say, when an enterprise is at a stage before that similar to oligopoly, the interdependency relationship between enterprise interest and public interest does exist. Commercial credit in the traditional sense, which is based on technology, quality and size, is the foundation on which trust is built and responsibility is fulfilled. In case of natural monopoly/oligopoly, the establishment of trust is still the foundation of commercial activities; however, the trust has transcended commercial credit in the traditional sense and makes the traditional boundaries between enterprise interest and public interest and between active responsibility and passive responsibility indistinct, and as a result, social responsibility becomes enterprises’ inevitable choice.

**From the viewpoint of enterprises’ passive choice**, as a collection of stakeholders, the public has diversified needs for trust, which is often invested with morality. These different opinions include:

- ✚ environmental impact.
- ✚ Social fairness - While enterprises are conducting their businesses, they occupy and use the public resources of the society. Well then, have they borne the corresponding social cost while they are benefiting from their diligence in business operation? Have they improved social welfare? How do enterprises promote social fairness while they are occupying the resources? Or even, is the development of enterprises achieved at the expense of other people’s welfare?
- According to developed countries’ experience, the government basically has two means to promote social fairness. Firstly, use public policies to directly adjust the distribution of wealth; secondly, use public enterprises as an extension of public sectors’ function and public policies to make up the gaps between policies and correct for “public failure”.
- ✚ The social attribute of products and services - environmental protection, eligible source of labor, eligible place of origin and etc. If, due to carelessness, an enterprise has provided a product that is a potential danger to health, it will be likely to quickly come to a crisis. This is not something new in real life. In addition, if an enterprise uses illegal labor, the public even need not have to choose between moral scandal and product quality, and the enterprise will definitely pay a high price for it.
- ✚ Conducting businesses in an honest and trustworthy way - Corruption and commercial

scandal are undoubtedly the best approach to the collapse of public trust, and are also the portion with the heaviest color of traditional morality.

 Staff's value - If a corporation is respectable, its staff are often respected and vice versa. In a sense, staff is a part of the public, and their behavior and value expression can effectively reflect the corporation's core philosophy - what does it encourage and what does it eliminate, and as the saying goes, "Just the correct kind of person is a match for a job." Impact on stakeholders finally comes from the corporations' employees, and if a corporation can create a good staff's value, it will win a public trust more easily.

**From the viewpoint of enterprises' active choice**, the public's attention often represents the social challenges and crises that have come about within a certain scope or are about to come about within a larger scope (examples are given below to explain how the enterprises establish commercial strategies by paying attention to public crises), such as energy, environmental protection, traffic and etc. It is the leading corporations of the industry that have the capability to, and also really need to, remove risks and create opportunities.

Enterprises' performance is to obtain good externalities while implementing commercial strategies, to digest internal cost while bearing the social cost (a great deal of input in the research and development of renewable energy, for example), and to advance social welfare while creating enterprises' values (for example, actively develop upstream/downstream industries of its main business in the area where projects having a major impact on the society are located).

It may be considered that as for natural monopoly enterprises, such as multinational corporations, large-sized public enterprises, the interdependency relationship between enterprise interest and social interest is an inevitable outcome of the law of social development. At the present stage of social and economic development, this interdependency relationship is not yet universally applicable, that is to say, it is neither simply applicable to general enterprises, nor applicable to enterprises at all development stages. However, as the society and economy develops, the interdependence relation between the enterprises and the society will become closer, and this trend will definitely continue.

## **5. The Wise's Choice - Multinational Corporations' Practice**

Boston College's "Corporate Citizen Research Center" defines a corporate citizen as follows: "a corporate citizen refers to a corporation's mode of behavior which integrates the basic value of the society with everyday commercial practice, operation and policy. A corporate citizen thinks that an enterprise' success is closely related with the health and welfare of the society, and therefore, it will consider in an all-round way the impact of the corporation on all of the stakeholders, including employees, clients, community and natural environment".

Commercial success is undoubtedly a good thing, and people often say that the successful enterprises have "created

values". This is also an important part of enterprises' social responsibility. However, how this success carries on depends on the definition of a real "success".

According to the definition given by Boston College, an enterprise's success in the new social and economic environment is not limited to the creation of value for shareholders, "please Wall Street", but **the creation of value in a harmonious, sustainable way** while equilibrating long-term interest and short-term interest, social interest and enterprise interest, etc.

### **5.1 Shell's Commercial Principle**

As a part of their core philosophies, many first-class multinational corporations in the world have announced their commercial principles, sustainable development strategies, commercial morality and etc, all of which contain an important component part that relates with enterprises' social responsibility.

Shell ranks the fourth in World Top 500, and it is one of the largest energy groups in the world. In Shell's commercial principle, there is a sentence, "as a part of commercial principle, we promise to make contribution to sustainable development. To this end, it is necessary to equilibrate short-term and long-term interests and give due consideration to economic, environmental and social factors in business decision-making."

#### **5.1.1 Shell's Definition of Sustainable Development**

Shell thinks that sustainable development is the achievement of equilibrium between economy, society and environment, and popularly speaking, is the pursuit of commercial success on the precondition that the society is respected and the environment is protected.

The position of sustainable development in Shell's strategy is as follows: (Please see table 3)

#### **5.1.2 Shell's Social Responsibility and Commercial Morality**

Compared with sustainable development, Shell's annotation of "commercial morality" to the public is more explicit.

Shell's management said to media that if an enterprise does very well in public relations but poorly in the owner-related work, what is the sense in laying emphasis on social responsibility? When we make a social investment, we give first emphasis to enterprises' business operation, which is of fundamental importance. We think that to win a good reputation, an enterprise must firstly do well in the owner-related work to the satisfaction of the owners, that is to say, an enterprise must conduct its businesses in a responsible way, and this is its fundamental contribution to the society. Social investment and social responsibility are inseparable from the development of businesses.

From Shell's words, we see that "the commonweal activity is just the social investment". They deem that **Enterprises' social responsibility is not simply to offer financial or material assistance or giving donations, and that it is of fundamental importance to operate the enterprise properly and comply with the rules including economic rules, social**

laws and commercial morality, etc..

### 5.1.3 The Ideal and the Reality

Shell's commercial principle is as world-famous as Shell's commercial success. It was developed in 1976, giving guidance to all of the Shell's commercial actions worldwide, and the commitment therein with respect to social responsibility has added a moral halo to Shell's commercial success.

Like many other multinational commercial giants, Shell not only makes oral commitment but also invests a great deal of funds of fundamental importance in social responsibility, including education, employees' safety, sustainable development and etc. However, the reality is still of challenging.

In 2004, a U.S. law office named Berger & Montague took legal proceedings against Shell by reason that Shell had "deceived the investors in an extremely disgusting way and seriously overestimated the corporation's market value", and condemned Shell's defiance of accounting criterion. Shell came to the "crisis of honesty and trustworthiness" due to a false report of oil and gas reserves by 20%, and Shell's Chief Financial Officer, Judith Boynton, was forced to resign. Soon after, Walter Vandevelde, the senior manager in charge of the corporations' petroleum exploitation and production, and the corporation's Chairman, Watts, also resigned from their posts.

In the same year of the "crisis of honesty and trustworthiness", a Shell-funded consulting company published an investigation report, and the report said that the corporation's petroleum exploitation activities in the oil production areas in the southern Nigeria had "unintentionally" encouraged the locality's violent activities and corruption focused around the scramble for petroleum resources and aggravated the poverty of the locality. In view that Shell's business activities in the locality has become incompatible with the business operation principle of "being honest and trustworthy" it advocates, Shell will have to terminate petroleum exploitation in Nigeria by 2008. Faced with the censure of this report, a spokesman of Shell Nigeria Petroleum Corporation said quite helplessly that it was indeed not easy for the corporation to conduct business activities in Delta State that "conform to ethics".

On September 29<sup>th</sup>, 2006, International Fund for Animal Welfare (IFAW-[www.ifaw.org](http://www.ifaw.org)) urged Russian government and crude oil corporations to do all that is possible to eliminate the adverse impact of Sakhalin Island project on the environment. This project is exactly a petroleum exploitation project in which Shell is the major investor.

On October 5<sup>th</sup>, 2006, U.S. Environmental Protection Agency (EPA) declared that because the gasoline produced can not meet the emission indexes of the new standard on environmental

protection and has an unfavorable impact on people's health, BP and Shell will pay a fine of 1.5 million US dollars and will take corresponding measures for improvement.

Even the great corporations can not avoid suffering such setbacks, and we see that there is still a long way to go to realize harmonious development.

We must also understand and believe that enterprises' social responsibility is in no way a simple issue, and it can not be guaranteed just by empty talking of legal system, nor can it be fulfilled by advocating morality. This is after all the conflict and coordination of multilateral interest, and it does not matter whether it is an issue of economics or an issue of sociology or even an issue of moral ethics. The crux of the matter is the society's rational understanding of enterprises' social responsibility, and to bring about a proper institutional arrangement and induce a virtuous circulation.

## 5.2 GE's Crisis Philosophy

On May 9<sup>th</sup>, 2005, GE released "ecomagination" initiative, by which GE will research and develop state-of-the-art hi-tech products with the concept of environmental protection being the principal axis and, while assisting its clients to face the challenge from the environment of the new age, protect global ecology together.

### 5.2.1 GE's "Four Elements"

Huge in size, GE's strategies and business positioning are perplexing. Even some GE staff considered that there is not strong logic relation between the businesses. When being asked how GE makes a decision as for getting into a new business and how its strategies are to be implemented, GE's orator replied that their strategies and decisions are based on four elements, namely, energy, health, water and waste.

This is a typical example of aiming at the optimal externalities and realizing harmonious development.

At GE strategic planning meeting in 2004, GE's President, Jeff Immelt found that the issues of energy utilization efficiency, environment and health, water shortage and etc became the common subjects throughout five different business departments of the corporation. He realized that these issues are the problems which all corporations are confronted with and these issues are also the challenges that all mankind face, and all of these challenges are potential crises. Based on this, GE started the course of ecomagination.

GE believes that it is capable of providing solutions to these crises and, what is more important, capable of creating enormous commercial values and social values from it. Both the capability of providing solutions and the capability of creating enormous values are indispensable. This is why GE actively bears the public cost of solving social crises (this will be a huge, uncertain input, which ordinary enterprises can not bear), integrates it with the enterprise's internal cost (strategy, R&D, market and marketing), and changes passive responsibility to active responsibility.

These four elements are summed up by us as crisis philosophy -- concern about the crises that the mankind face,



solve the crises that the mankind face, and create enormous profit from the crises. We believe that it is based on this crisis philosophy that “ecomagination” came into being.

By a simple analysis of the main products of GE’s “ecomagination”, it is not difficult for us to understand the wisdom that lies in this “ecomagination”: (Please see Table 4)

As far as the challenge of energy is concerned, coal remains the largest traditional energy reserve worldwide. China comes the first in the world ranking for coal reserves, 35% of the electric power comes from coal-fired power stations, and it goes without saying that coal combustion will do damage to the environment and give rise to social cost. The transportation sector worldwide accounts for about 1/4 of the total energy consumption of the world, occupying the second place in energy consumption. GE’s IGCC technology, new railway locomotives and aviation engines address the issues of the combustion efficiency of fuels and the emission of harmful gases, respectively, and these products which seem to be the products of non-front-end industries will be capable of offering solutions to the challenges that the mankind face.

Drawing an analogy between this strategy and the division of labor in the field of information technology, we can consider this strategy to be established on the basis of the man-machine conversation (man and environment) function and the machine-machine conversation (interface and standard) function at the base level of the system and to be aimed at realizing the “protocol” and “standard” for the operation of the industrial society, providing the “operating system” for the operation of the industrial society. From the viewpoint of the theory of value chain, GE’s strategies will bring about new core competence, which is based on the fundamental needs of mankind -- having a high rigidity and not easily substituted for -- and thus becomes the key link in the value chain.

We believe that GE’s “Four Elements” concept come from wisdom, which makes them become commercial morality. Although, in the Chinese culture, morality weighs far heavier than wisdom, wisdom often contributes to the realization of real morality.

### 5.2.2 Non-Zero-Sum

**GE is not an environment protectionist, and it is not necessary for any enterprise to become an environment protectionist.**

Take the Hudson River as an example. Due to a great deal of polychlorinated biphenyl and etc. dumped into the River which resulted in the serious pollution of the water body, GE was placed on the “blacklist” of environment destructionists and became one of the large corporations that gave rise to much controversy. This might be one of the most troublesome headaches during Jack Welch’s tenure of office. In 2002, at long last GE put forward the program for clearing up the polluted sites in the upper Hudson, so as to end this longstanding lawsuit that lasted twenty-odd years.

In the same year, according to a Canadian NGO’s report, the Saint-laurent Science Garden nearby Montreal International Airport discharged a large quantity of chemicals, such as PCB, into St.Lawrence River, the concentration of which

exceeded the specified indexes by 8.5 million times.

Now an “ecological” GE appears in the face of the people. Obviously, the result of the conflict of public interest is not zero-sum, and the result frequently depends on the choice of the parties concerned. GE’s crisis philosophy and “ecomagination” do not merely seek the non-zero-sum of the conflict of interests, but also transcend the conflict and seek the compatibility of interests, and is it a reflection on linear issues in a nonlinear way?

### 5.3 Public Enterprises’ Social Responsibility is Heavier than That of Other Enterprises

The above has analyzed the interaction between enterprise interest and other stakeholders, with emphasis laid upon the analysis of multinational corporations and natural monopoly enterprises that are more closely correlated with public interest. As an important supplement, the concept of public enterprise should be introduced into the analysis of this paper.

It is generally accepted that public enterprises refer to state-owned enterprises that are not purely aimed at moneymaking but also shoulder the obligations laid upon them by public policies. Public enterprises have an attribute of public service. In market economy, the “market failure” phenomenon may occur. Therefore, in order to ensure the effective functioning of market economy and to correct for market failure, the government needs to set up public enterprises to carry out necessary intervention in social and economic affairs, so as to achieve specific policy goals. According to the definition of IMF, public sectors include government sector and public enterprises, and public enterprises are the units that are under the control of the government but have a market attribute.

According to the universal practice of international legislation, there are two kinds of typical public enterprises:

⚓ Public service institutions: with the major purpose of providing services to satisfy the needs of social public. Such enterprises include administrative departments (postal service and communication, water supply and electric power supply, municipal engineering and public sanitation, customs, auditing, tax management and etc) and service departments (government-funded medical service, education, social welfare and etc);

⚓ Natural monopoly publicly-operated enterprises: with the major purpose of controlling the national defense industry and the lifeblood of economy, including infrastructures, such as roads and transportation system, energy and power supply, aviation, finance and etc, so as to ensure national security and economic growth.

Public enterprises lay a strong emphasis on the achievement of social objectives (including employment objective, etc.) and a less emphasis on moneymaking, especially natural monopoly industries, which have a great effect of scale economy and require a huge “sunk capital” for start-up, and the allocation of resources for which is undertaken by the government. In order to minimize the waste of public financial resources, it is necessary to establish concrete laws on the public sector to standardize the various

publicly-operated enterprises' and institutions' organizational structure and business operation activities, and to carry out protective and restrictive economic regulation of natural monopoly industries by means of public policies, so as to ensure that the social objectives are achieved; the public are well served and the prices are paid reasonable; and the market competition is performed in a fair way and the efficiency of market economy is not compromised .

Public enterprises are supposed to take their social responsibility as the foundation of their strategy. From the viewpoint of functionality, they are naturally assigned to play the role of an extension of public policies, serving as an effective tool to correct for "market failure". However, this does not imply that public enterprises are sure to fulfill their social responsibility in a better way because they have the policy attribute and the market attribute simultaneously. All of the virtuous equilibrium of interests requires not merely the existence of the function, and furthermore, whether the function can eventually be brought into play depends on a proper institutional arrangement, including laws, public policies, market environment and etc.

## 6. China Three Gorges Project Corporation's Practice

### 6.1 Development Strategy

China Three Gorges Project Corporation holds it as its vision and commercial strategy to forge itself into a first-class clean energy group in the world.

After 10-odd years of construction of Three Gorges Project, with the missions fulfilled one by one and a good many of challenges overcome, China Three Gorges Project Corporation (CTGPC) welcomed a new stage of the corporation's business operation. In 2005, CTGPC started the construction of the last huge hydropower station under the "Tenth Five-Year Plan" of China, i.e. Xiluodu Hydropower Station, officially commenced. In the following year, the construction of another large hydropower station, the first of its kind under the "Eleventh Five-Year Plan" of China, Xiangjiaba Hydropower Station, was initiated by the corporation. It has also begun the preliminary design of two other hydropower stations, Baihetan, Wudongde.

Meanwhile, CTGPC has involved itself in the investment in and the construction of renewable energy projects. In Jiangsu, an on-land wind farm with an installation capacity of 200 MW is under construction. At the same time, the corporation has actively participated in the bidding of the pilot project of an offshore wind farm in China.

The conception of Four Ones ---"Build up a power station, promote the economy of the area affected , improve the environment of the local and benefit the migrants of the project" is not a slogan but an inevitable choice based on the objective understanding of the law of social development. As a responsible public enterprise, we must realize our vision and fulfill our missions during the development and operation of these projects which can bring about huge benefits, but also have a significant impact on economy and environment. We also see clearly that we will definitely achieve the objective of harmonious development so long as

we go along this path.

## 6.2 Some Reflections on Four Ones

In the traditional sense, enterprises' public management is a part of the enforcement of enterprises' commercial strategies and was once expressed as enterprises' involvement in public policies and efforts to improve public relations, and eventually contributes to the achievement of the commercial goal. However, today, when the global political and economic environment is changing, public strategies become a prerequisite to the determination of enterprises' commercial strategies. We can predict that this trend and law will have an important influence for a long period of time in the future.

Based on these reflections and by using for reference the strategic thoughts and practices of successful enterprises of developed countries, we think that:

- ✚ Enterprises' business operation performed in an honest and steady way is the most important content of enterprises' social responsibility and is also the foundation of enterprises' public responsibility;
- ✚ Enterprises' public responsibility must be organically combined with enterprises' commercial strategy, so as to realize the lasting, sustained and harmonious development;

We think that with the conception of "Four Ones" the corporation's public strategies have been positioned in the corporation's vision of CTGPC and have become one of the supreme criteria that give guidance to all of its commercial actions. Therefore, we also try to understand the conception from the following aspects:

### ✚ Management Theory

Today, the economy and society are changing with an accelerated speed, and in such an environment, to "solve nonlinear problems in a nonlinear way of thinking" is an urgent need for us. On one hand, we should understand the macro social and economic environment and the micro market environment of the enterprises behind the conception of "Four Ones", and on the other hand, we should also fully understand that all the things will increasingly tend to develop in a "leapingly-changing" way. In the new age, contradictions are not simply expressed as "right" or "wrong", but "applicable or not" or "adaptable to the ever-changing environment or not". A formation, which may be right at present, can lost its vitality soon; whereas a theory of economics in early days may revive now.

What the conception of "Four Ones" reveals is a law rather than a concrete method of solving problems. This law will bring about a series of profound transformations, and we should actively support and adapt to these transformations in our work. However, during this course, we will encounter many reversals. If we can persist in complying with the laws behind the conception, we will not become perplexed in these "reversals".



### **Organizational Framework**

The fulfillment of enterprises' social responsibility is not an extra job that is separable from main business and functional management but an organic component part of them. Take GE for example, the whole group corporation has a staff of over 300,000, but there are only on more than 500 persons who are directly engaged in daily public affairs which merely involve the work with regard to public relations. The implementation of enterprises' public strategies is related with the strategic establishment and implementation of businesses, including merger & acquisition and the development of new businesses. GE "ecomagination" action is a good example. In the past four years, GE merged a number of corporations in the water treatment area (upstream and downstream the industrial chain), formed GE Water and actively extended its businesses.



### **Allocation of Resources**

Shell thinks that to change passive responsibility into active

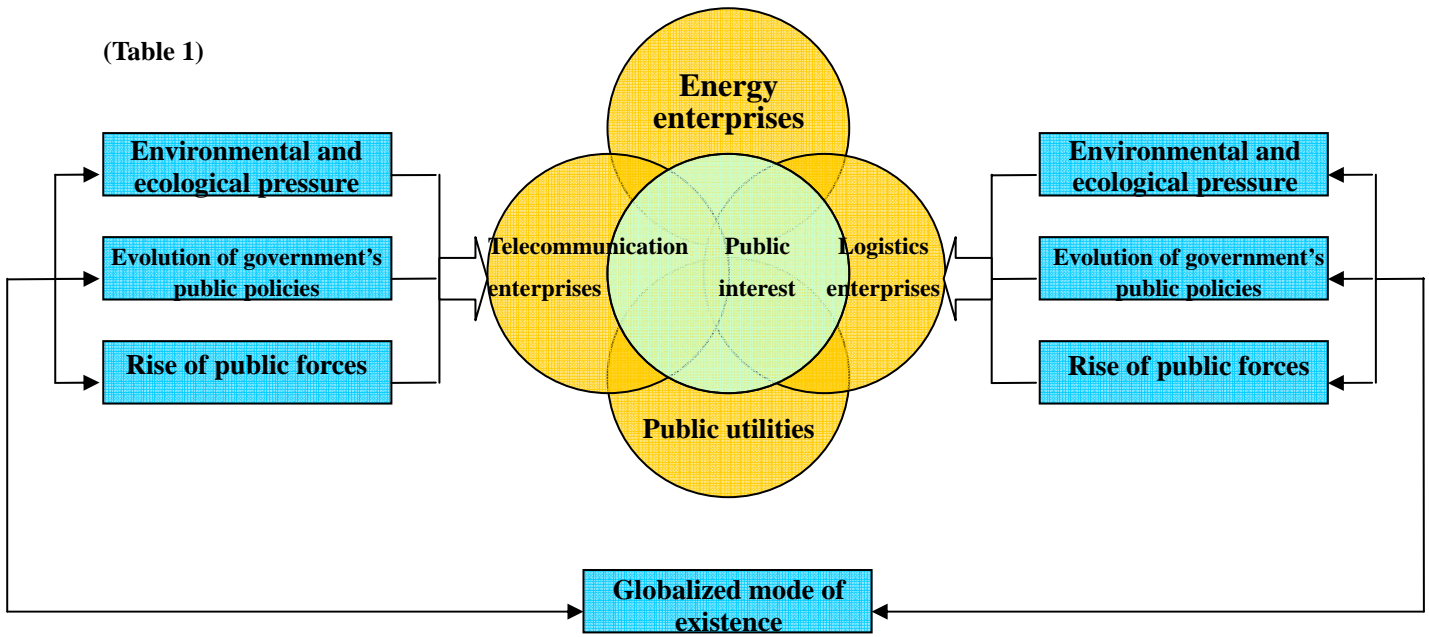
responsibility and actively bear the reasonable external cost is "a kind of public investment", which helps to improve the "efficiency" of this portion of "cost". From the viewpoint of life-cycle expenses and social composite cost of the projects, to bear more external cost in a short term can mean unnecessary expense, but is more likely to realize the virtuous cycle for the long and medium term and a win-win result of the society and the enterprises. As an extension of the country's public policies, public enterprises have the responsibility for, and are cable of, improving the supply efficiency of commons and promoting the virtuous interaction between enterprises' local interest and composite interest of the society.



### **Commercial Morality**

As a public enterprise, in addition to ordinary enterprises' market attribute, we naturally shoulder a heavier responsibility for constructing a "harmonious society".

(Table 1)



(Table 2)

	<b>Moneymaking Stage (Stage 1)</b>	<b>Scale Stage (Stage 2 and Stage 3)</b>	<b>“Corporate Citizen” Stage (Stage 4)</b>
<b>Target of Business Operation</b>	<b>Existence</b>	<b>Development and Expansion</b>	<b>Steady Growth</b>
<b>Size</b>	small	Begin to take shape	Industry leader/natural monopoly
<b>Market</b>	Large market size (in comparison with enterprise size)	Have a certain market share/instability of market share/regionalization	Relatively stable market position and market share/relatively stable market share/globalization
<b>Client</b>	Relatively extensive (in comparison with enterprise size)	Relatively fixed areas in relatively fixed industries	Relatively fixed industries
<b>Rival</b>	Uncertain rivals/a state similar to perfect competition/substitutable and complementary	Quite a number of relatively fixed rivals/a state similar to monopolistic competition	<b>Oligopoly and Strategic Cooperation</b>
<b>Primary Risk</b>	Identify and find opportunities	Market share	Honest and trustworthy

**(Table 3)**

<b>Is not:</b>	<b>is:</b>
A new measure;	An organic component part of commercial principle;
A business cost or burden;	A potential source of value and competitive edge;
A supplement (not indispensable);	A main way of carrying out businesses;
An exchange of economy for environment/society;	A way of thinking;
An activity with regard to public relations;	A win-win solution that allow both the corporation and the society to create value;
shift the responsibility for decision-making onto stakeholders.	An open dialogue with stakeholders for the purpose of making a better decision through a better understanding of the stakeholders' needs.

**(Table 4)**

<b>Field</b>	<b>Products of "Ecomagination"</b>
Water Treatment	Capable of treating over 7 billion liters of water per day, equivalent to the total amount of water required for 150 million persons per day, applied to water treatment in various forms, purification of soft beverage water and removal of heavy metal ions from waste water.
Consumer Finance	Make return for both the card holders and the environment simultaneously; each time shopping is done by use of card, in addition to the refund of cash to the customer, a certain percentage of money will be donated to environmental institutions.
Aviation	Improved efficiency of aviation engine, and reduced fuel consumption and emission of greenhouse gases and harmful gases
Transportation	Raised locomotive efficiency and reduced fuel consumption and emission of greenhouse gases and harmful gases
Energy	Wind-power generation and solar power generation that provide clean electric power; IGCC's clean coal technology, which uses the gasification combined cycle technology, makes traditional fuels become clean energy sources; New turbines and gas engines improved the efficiency and realized the utilization of biological material
New Material Technology	Plastics, silicon resin and etc will allow both the manufacturers of the upstream industry and those of the downstream industry to manufacture products that are more environmentally-friendly
Consumption and Industry	The use of energy-saving technologies, energy-saving illuminating apparatus and other energy-saving products will reduce energy consumption by 25%~75%