

Politics Is Not the Business of Business
Corporate Social Responsibility in Leading Firms in China

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Introduction

The increasing influence of transnational corporations (TNCs) in the global economy has led civil society organizations (both non-governmental organizations (NGOs) and labor unions) to demand that TNCs increase their responsibilities for social development (Anderson and Cavanagh 1996; Frenkel 2001; Korten 2001; van Tulder and Kolk 2001). Sometimes willingly and oftentimes reluctantly, TNCs have accepted this demand for extended responsibilities, giving rise to what is known as the Corporate Social Responsibility (CSR) movement (van Tulder and Kolk 2001; Sethi 2002).

The CSR movement has resulted in, and has been built around, several influential transnational initiatives that define the principles of responsible business practice. One of the most important of these initiatives is the UN Global Compact, which has been signed by more than 2,500 companies and numerous NGOs (Cavanagh 2004; Kuper 2004). The UN Global Compact sets out ten principles relating to human rights, workers' rights, environmental protection, and corruption. Its launch marked "a major turn in development thinking. After decades of hostile relations, the UN and business now acknowledge their common interest in the promotion of sustainable development" (Thérien and Pouliot 2006, 55; cf. Kuper 2004). An underlying assumption of the CSR movement, of which the UN Global Compact is a critical part, is that TNCs can become allies promoting "a more sustainable and inclusive global economy,"¹ particularly in developing countries.

There is already extensive research into CSR firms' practices in developing countries (Frenkel 2001; Egels-Zandén 2007), but this research rarely, if ever, analyzes the link between these firms' practices and political liberalization. This article addresses this gap through an empirical study of the operations of a Nordic TNC, hereafter referred to as 'Nordix,'² in China. The findings suggest the relationship between CSR and political liberalization is more complex than advocates of CSR typically assume. Specifically, the study shows that CSR-driven economic globalization can promote political liberalization within a TNCs' *internal* operations. Nonetheless, it also shows that TNCs' policy to separate business and politics decouples, and potentially even counteracts, the globalization-liberalization link *outside* the corporate boundaries. This is especially so in countries, such as China, with strong national governments and restrictive political liberalization agendas.

The article focuses on China because it is one of the countries where political liberalization is perceived as most needed. Nordix was chosen for study because Nordic firms are regarded as the front-runners in the CSR movement (Morsing, Midttun and Palmås 2007), and this particular firm is ranked as one of the best Nordic CSR firms. Nordix is thus representative of leading CSR firms and provides an excellent opportunity for examining the social development resulting from the work of a proactive TNC. Nordix is a large manufacturing company with sales and production units all over the globe. It has been present in China for several years and operates numerous units there. Data have been collected by document analysis, more than 100 interviews with Nordix top-management, middle-management and employees as well as international and local stakeholders in Europe and China, and observations in Europe and China.

CSR Principles and Practices

Like other TNCs, Nordix has operationalized its CSR commitment in numerous policies and initiatives. Among the most important of these is the company code of conduct, which is drafted in accordance with the principles of the UN Global Compact. Briefly, Nordix's code of conduct states that the company should comply with existing UN and International Labour Organization (ILO) conventions regarding human rights and workers' rights. These UN and ILO principles are, in turn, closely linked to ideals of individual rights, democracy, and, some would claim, a Western form of civilization (Donnelly 1989; Renteln 1990; Tomuschat 2003). Hence, it is easy to see why the UN, NGOs, labor unions and academics regard corporate adoption of these principles as integrating economic globalization with political liberalization.

The globalization-liberalization link is to a great extent observed in Nordix's operations in China, where the company complies with strict Chinese labor law while also respecting its corporate code of conduct. Consequently, the principles of the UN Global Compact are implemented in Nordix's operations in China. There is little of the decoupling between the company's espoused CSR principles and actual corporate practices (also known as 'greenwashing' or 'bluwashing') that occurs in other TNCs (Sethi 2002; Egels-Zandén 2007). In combination with human resource practices that emphasize employee participation, training, continuous improvement, and the like, this principled approach makes the experience of working at Nordix very different from many local Chinese firms. Like other TNCs, Nordix has also started to demand that the CSR principles be adopted by their Chinese suppliers, thus offering further support to the argument that the presence of TNCs that espouse CSR promotes human rights and political liberalization (van Tulder and Kolk 2001; Sethi 2002; Egels-Zandén 2007).

Nonetheless, there is one aspect of Nordix's operations that is inconsistent with its code of conduct and the principles of the UN Global Compact – the absence of freedom of association. While several of the factories owned by Nordix or by its suppliers in China do have labor unions, all these unions are affiliated with the All China Federation of Trade Unions (ACFTU). Given that ACFTU is the only legally allowed Chinese labor union, this is perhaps to be expected. However, the situation highlights a key issue in terms of the influence of TNCs in developing countries. Nordix accepts the prevailing Chinese laws and has no intention of challenging them. Consequently, it gives compliance with local laws priority over applying the principles of the UN Global Compact. In fact, Nordix's code of conduct states that Nordix does not in any way interfere in the host country's domestic politics. Consequently, Nordix not only refrains from questioning the Chinese ban on independent labor unions, but it also refrains from questioning or even discussing political developments. As one Nordix manager put it: "I would never ever in any situation at any time discuss politics in China. It is the one thing that I do not talk about. We are not in China to engage in politics. We are in China to engage in business. This is Nordix's very clear policy position." Nordix's non-involvement in politics is not restricted to China. It is its corporate policy and, consequently, Nordix does not interfere in politics in Denmark, Russia, the US, China or any other country.

This framing of corporate responsibility as not including involvement in any political issues outside the boundaries of internal and supplier corporate governance is not

unique to Nordix. Several other large Nordic TNCs make similar claims of neutrality with regard to politics.³ At least implicitly, this separation is also consistent with the UN Global Compact and the dominant thinking in the general CSR movement. Indeed, Nordix is rarely, if ever, criticized for its “neutral” position vis-à-vis national politics. Business and politics are framed as separate and independent. Similar separations are made in, for example, the debate about sports responsibility in the 2008 Olympics in China, where individual organizations claim that sports are unrelated to politics, and that they thus have no responsibility to intervene in political development in China.

Interestingly, in business the separation of business and politics is only present outside the boundaries of the corporation and its suppliers. Within these boundaries, TNCs are expected to uphold and promote UN Global Compact values that are closely linked to liberal and democratic ideals of social development. This division between internal and external matters and the focus on influence inside but not outside these boundaries can be linked to the modern notion of a corporation (Latour 1993; Palmås 2005). Hence, it is an integral part of contemporary construction of “the corporation,” making it highly influential and difficult to challenge.

The separation between business and politics is one potential explanation for the limited political liberalization of China despite extensive economic globalization. At the very least, it indicates that the oftentimes assumed link between corporate adoption of responsible business practices and political liberalization is questionable outside the realm of corporations’ own operations and those of their suppliers.

TNCs Entwined in Politics

The case of one of Nordix’s largest factories in China illustrates well the entwined relations of TNCs and politics. This joint venture factory was set up in the 1990s after extensive negotiations between the top management of Nordix and Chinese government officials. As one manager at the Chinese partner noted, it did not choose Nordix. Rather, Chinese government officials chose Nordix and instructed them to set up a joint venture with it. The reason for this extensive government involvement was that the industry in question is vital for economic development in China, and the joint venture was envisioned as central to the development of this industry.

Nordix was not the only partner considered. The Chinese government’s choice of Nordix was related to its reputation as a skilled company, and also to it being Nordic. While other producers of similar products (e.g., US firms) were perceived by Chinese government officials as entwined in national politics too critical of the Chinese government, the Nordic country’s relatively supportive position towards the Communist regime was viewed as positive. This indicates that Chinese officials believed that Nordix and Nordic governments would exert only limited pressure on the Chinese government in terms of political liberalization.

The Chinese joint venture partner is a state-owned enterprise and part of the Chinese Ministry; in other words, it is part of the Chinese government. Interestingly, the joint venture’s customers are also part of the Ministry. Since the industry in question is highly regulated, the Ministry has decision-making power in terms of market share, sales prices, new product approval, etc. Logically, this has led to frequent, and

sometimes extensive, interactions between Nordix and the Ministry, in which the development of the joint venture and the industry have been discussed.

The joint venture structure, which gives the Chinese partner over 40 percent ownership, also gives the Chinese government influence in the company's internal operations. The Chinese partner can, for example, nominate a deputy general manager. So far, this manager has always been a Communist Party member. Besides participating in operational decision-making, this deputy general manager is responsible for the company's Communist Party committee. This committee consists of over 100 managers within the company (thus, nearly all the managers) and serves as a forum for communication and advancement of the Communist Party agenda. Since Nordix does not "interfere" in politics, both Nordix and the Chinese partner recognize that the operations of the Communist Party committee cannot be financed by Nordix. Instead, financing is channeled from Nordix's payments to the trade union (which is also closely linked to the Communist Party and reports to the deputy general manager) and from there to the Communist Party committee. Additionally, the company's board members from the Chinese side have always been Party members.

These measures mean that the Communist Party has extensive knowledge of the company's operations. It also has the ability to influence the company's operations: internally, through the trade union, the deputy general manager, the Party committee, and the company board; externally, through the Ministry's control of prices, market share, product approvals, etc. Hence, the Communist Party has been able to oversee any changes Nordix has made in the company's operations. This does not imply that the Party has explicitly attempted to influence the company's operations. As the majority owner, Nordix has assumed management responsibility. Rather, it means that the Communist Party has retained several platforms of influence and information over Nordix's operations.

In sum, the joint venture has helped the economic development in China by improving both the performance and quality of products in this industry. This Nordix-induced economic development has had few links with political liberalization. Although internal operations have changed, external political development remains unchallenged. This study even indicates that the official separation between business and politics can serve to uphold the influence of the Communist Party. The Communist Party was forced to open up to foreign know-how in this industry in order to develop the Chinese economy, making it vulnerable to external pressure. However, due to Nordix prevailing separation of business and politics, the Communist Party was never challenged. It was able to achieve its economic objectives while preserving its control and influence over China's political development.

Conclusion

The CSR movement claims that if TNCs adopt responsible business practices, political liberalization will follow. This study of Nordix – one of the leading CSR firms globally – shows that this claim is valid as regards TNCs' internal operations. Nordix is certainly doing more internally for human rights and workers' rights than most other firms. However, the study also shows that leading CSR firms and the CSR movement in general – at least implicitly – accept the separation of business and politics in the host country. This separation decouples, and potentially even counteracts, the link between economic globalization and political liberalization.

Although Nordix is more explicit than most TNCs in its separation of business and politics, most Nordic and international TNCs adopt practices similar to that of Nordix regarding political involvement (particularly in politically sensitive markets such as China). Hence, this study's results are not only applicable to Nordix, but indicate that the CSR movement's focus on TNCs' internal and supplier operations risks undermining its claim to closely link economic globalization and political liberalization.

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¹ www.unglobalcompact.org (Accessed 7 December 2006).

² 'Nordix' is a anonymized name that has no reference to either the studied TNC's name or any potential firm and/or organization actually named 'Nordix'.

³ This conclusion was reached by the author after reading through numerous Nordic TNCs' codes of conduct.