

# Corporate Social Responsibility Issues and Countermeasures of Chinese Private Enterprises

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**Abstract:** The present paper explored the concept and significance of corporate social responsibility (CSR) and examined the issues encountered by Chinese private enterprises in assuming CSR. It delved into the factors for CSR deficiencies from the internal and external aspects. Countermeasures from the perspectives of the enterprises themselves and supervision from government and society were outlined to enhance social responsibilities of private enterprises. It is hoped that the present research can inspire some novel ideas for the development of CSR in private enterprises.

**Keywords:** Corporate social responsibility, CSR, private enterprise.

## 1. Introduction

Corporate social responsibility (CSR) serves as a pivotal means for enterprises to fulfill their obligations and demonstrate their social image and corporate reputation. The effective fulfillment of social responsibilities by enterprises has long been a focal point of concern for both the country and society. It also presents a challenging aspect for enterprises striving for rapid development. As a distinct type of enterprise different from state-owned entities within China's socialist market economic system, private enterprises serve as the intrinsic impetus for China's economic advancement.

In early April 2023, the number of officially registered private enterprises in China exceeded 50 million, marking their significant role in economic progress. As a crucial determinant of the growth rate, the private economy has become a major contributor to economic development. Statistics from All-China Federation of Industry and Commerce demonstrated that private enterprises contributed 59% to corporate tax revenue, 65% to GDP and constituted 92% of the total number of enterprises in 2021. With the fast development and expansion of private enterprises, the assumption of corporate social responsibilities (CSR) becomes increasingly pronounced. However, the actual fulfillment of CSR is impeded by a multitude of challenges and obstacles. To ensure the sustainable development of private enterprises as well as the stability of national economy in China, it is imperative to tackle the existing issues related to CSR implementation of private enterprises.

## 2. The Concept and Importance of CSR

### 2.1. The concept of CSR

Research on CSR has attracted the attention of scholars since its emergence in the 1950s. So far, there is a lack of consensus regarding the definition of CSR (Lu et al., 2021, Rehman et al., 2022, Zhang et al., 2020). Howard Bowen, often recognized as the pioneer of CSR, advanced that businessmen had the responsibilities to act in accordance with social values and desired objectives (Bowen, 1953). According to Freeman (1984), CSR was the fulfillment of

responsibilities to the stakeholders involved encompassing three main types of stakeholders. The first type of stakeholders was those with economic connections to the enterprise such as employees, consumers, creditors, and suppliers. The second type referred to stakeholders with controlling ownership, mainly enterprise managers and shareholders. The third type encompassed social benefit stakeholders including government and environment. In general, CSR can be interpreted as the commitment of profit-oriented enterprises and organizations to employ socially beneficial methods within a specified period of time during their operation. It involves the legal fulfillment of corporate objectives as well as the undertaking of social obligations.

### 2.2. The importance of CSR

As an integral component of society, corporations are intricately connected to particular social structures, cultures and social networks. In essence, corporations and the society are interconnected and inseparable. The realization of maximum corporate economic benefits requires the assumption of corresponding social responsibilities. It is widely acknowledged that enterprises are not only creators of social wealth, but also consumers of social resources. Hence, as enterprises enjoy the resources and opportunities provided by the society, they have the responsibility to give back through ethical and moral conduct.

Meanwhile, the fulfillment of CSR can exert lasting implications for enterprises. Firstly, the implementation of CSR contributes to the enhancement of enterprise competitiveness and the enhancement of corporate image. A good corporate image is an intangible asset of an enterprise, which in turn forms its competitive advantage and ultimately brings potential long-term benefits to the enterprise. Secondly, the execution of CSR can stimulate the morale and dedication of internal stakeholders such as employees. On the one hand, according to social exchange theory, the fulfillment of internal CSR such as employee training and benefits will enhance employees' perception of organizational support. Thus, employees tend to repay the enterprise with increased work engagement and higher work efficiency. On the other hand, the execution of external CSR such as the protection of consumer interests and the environment will enhance employees' organizational pride and identity. Consequently, it will boost employees' sense of work meaningfulness. Finally,

the engagement of CSR creates new avenues for corporate development. The fundamental purpose of an enterprise is to create commercial value. Proactive commitment to social responsibilities by enterprises can be seen as a strategic, long-term investment. This may include the application of emerging technological innovations to conserve energy, lower emissions and mitigate environmental damage. Meanwhile, the commitment to social responsibility motivates enterprises to innovate in products, design, processes, management as well as systems. As a result, enterprises can achieve greater success and profitability through the improvements in production efficiency and the exploration of new innovation fields.

### **3. Main Issues in CSR of Private Enterprises**

#### **3.1. Lack corporate culture construction**

Corporate culture is the outward manifestation of corporate mission. It effectively disseminates and transmits corporate mission through universally adopted values among employees. Thus, in a certain context, corporate culture embodies the soul and values of an enterprise. However, private entrepreneurs often prioritize the survival of their enterprises. As a result, the construction of culture or mission is intentionally or unintentionally ignored. Consequently, a considerable number of private enterprises demonstrate a conspicuously weak corporate culture.

#### **3.2. Low levels of CSR practice**

Compared with western countries, the implementation of CSR started relatively late and haven't garnered significant attention. Despite the growing interest of CSR among private enterprises in the past decades, the overall CSR level is low. For many enterprises, the understanding of CSR is still superficial, and their CSR activities are modeled after their counterparts. Meanwhile, a large portion of private enterprises lacks well-defined CSR management, leading to the risk of disorder in CSR practice.

#### **3.3. Weak CSR awareness**

Not a few private enterprises, particularly micro, small and medium-sized ones, tend to focus solely on profit maximization, overlooking the necessities for CSR fulfilment. They lack a correct understanding of CSR and believe that CSR and profit making are contradictory. Hence, a substantial number of private enterprises show reluctance to allocate funds in endeavors encompassing the enhancement of working conditions and employee work safety, equipment upgrades and technological innovation.

#### **3.4. Lack systems and comprehensiveness**

Currently, despite the recognition of the significance of CSR by an increasingly number of private enterprises, the actual implementation process often lacks innovation and adopts a simplistic and superficial approach. A singular initiative of CSR or limited CSR participation falls short of exerting a lasting effect. Consequently, enterprises may develop an incorrect mindset that whether they implement CSR or not, or the extent to which they fulfill it, be it more or less, will exert the same results.

### **3.5. Crisis of public confidence**

Driven by the objective of profit maximization, some private enterprises have entangled in ethical dilemmas such as food safety, delayed payment of employee wages, environmental pollution and production safety. This has triggered societal doubts regarding the sincerity of CSR practice of private enterprises, asserting it as hypocritical actions driven by self-interest. Over time, the public gradually lacks trust in CSR actions implemented by private enterprises.

## **4. Factors for CSR Issues of Private Enterprises**

### **4.1. Internal factors**

#### **4.1.1. Lack capacity and motivation**

Among the numerous private enterprises, those positioned in the growth stage constitute a large portion, accounting for approximately half of all private enterprises. Undoubtedly, private enterprises in the early growth phase of their life cycle face considerable weaknesses and challenges. Meanwhile, different from large corporations with relatively standardized corporate governance structure, a high level of awareness and capacity to engage in CSR practice, private enterprises, particularly micro, small and medium-sized enterprises, generally lack capacity and motivation in CSR initiative. Faced with heightened survival pressures and limited resources, private enterprises tend to prioritize resources towards addressing immediate challenges related to their survival and development. Additionally, due to the limited social impact of private enterprises especially micro, small and medium-sized ones, CSR practice may not exert substantial social influence or economic returns compared with large corporations. Consequently, it leads to a diminished motivation for CSR initiatives.

#### **4.1.2. Lack standardized management**

It is widely acknowledged that a sound and comprehensive corporate management system plays a pivotal role in boosting the core competitiveness of an enterprise as well as fostering its growth. A management team with CSR awareness and a long-term strategic vision tend to incorporate CSR into the company's tradition, making it a key element of corporate operations and corporate culture. However, a considerable number of private enterprises are characterized by low levels of modern management, insufficient technological innovation capabilities as well as limited progress in corporate transformation and upgrading. Consequently, the low levels of management can hinder the progress of CSR practice. In addition, a significant number of private enterprises in China operates on a family-based business model. As these enterprises progress into the growth stage, the management model centers around family ties hampers the institutionalization and standardization of corporate management. Instances of non-compliance with laws and regulations are prevalent in practical management, posing challenges to effective management.

### **4.2. External factors**

#### **4.2.1. Imperfect market mechanism**

In the course of production and operation activities, private enterprises establish connections with diverse stakeholders and receive close attention from all aspects of society. This imposes both tangible and intangible pressure on enterprises.

However, due to the limitations of the current market mechanism, enterprises' inadequate CSR performance often do not exert a direct impact on operational outcomes. Consequently, companies may indulge in irresponsible opportunistic behaviors in order to cut costs and obtain more profits.

#### **4.2.2. Lack social supervision**

In China, due to the late start of CSR, the social supervision system is not fully developed. This gives rise to issues such as feeble supervision, incomplete supervisory institutions and ineffective supervision outcomes. Currently, there exists a lack of standardized criteria for social supervision of private enterprises, leading to ineffectiveness in monitoring CSR. Hence, despite the government's enforcement of various mandatory policies and regulations, it is not uncommon for violations to occur, resulting in adverse effects on the rights and interests of consumers, employees, environment and the community.

## **5. Countermeasures for CSR of Private Enterprises**

Over the past few year, there has been a surge in public and media attention towards CSR in China. Private enterprises, in response, have started to recognize the importance of fulfilling their social responsibilities, but their actions often seem well-meant but insufficient. As Chinese private enterprises especially micro, small and medium-sized ones are still in the phase of development and expansion, fulfilling social responsibilities require long-term efforts. It is difficult to produce substantial leap-forward changes solely by relying on the enterprises themselves, and the role of external forces is also very important. In other words, this process relies on the self-awareness of private enterprises as well as the support and supervision from the government and social forces.

### **5.1. The optimization of supervision mechanism and reinforcement of supervision**

The fulfillment of social responsibilities is intricately linked to consumer interests. Therefore, consumers have the right to be informed and oversee CSR practice. In light of this, it is imperative to establish an information disclosure mechanism for the implementation of CSR by private enterprises, ensuring the timely communication and transparency of corporate performance to consumers. Simultaneously, it is necessary to strengthen the supervision of government departments and strengthen law enforcement. Strict enforcement and thorough investigation of violations are imperative to encourage private enterprises to develop a legal mindset and conscientiously perform CSR.

### **5.2. The enhancement of CSR awareness and practice**

On the one hand, entrepreneurs in the private sector should strive to adapt to the changes of the times and actively connect corporate destiny with the destiny of the nation. They need to foster an awareness that reflects on the source of wealth and give back to the society. It is crucial for private enterprises to cultivate a correct view of social responsibility, ensuring that wealth stems from the society and cycles back to the society. This outlook on social responsibility will lead to the harmonious development of both enterprises and the society.

On the other hand, it is imperative for private enterprises to integrate CSR awareness into corporate long-term development plans and daily operations. Entrepreneurs should take the lead in implementing responsible management practices, actively reform the management structure and introduce modern enterprise management models. At the same time, companies should internalize corporate culture with social responsibility as the core into the mindset of employees so as to guide and motivate their behaviors. In addition, enterprises should endeavor to build responsible brands, seamlessly incorporate responsible culture into brand development strategies and nurture corporate competitiveness rooted in responsibilities.

## **5.3. The reinforcement of moral restraint and public opinion guidance**

Every facet of society, alongside private enterprises, constitutes a community of interests. The conduct of enterprises has far-reaching implications for the normal functioning of the society. Hence, all segments of society should fortify moral constraints and guide public opinion, urging companies to voluntarily embrace their moral and philanthropic social duties. This endeavor aims to generate a positive interplay between economic gains and social benefits as well as leveraging social oversight channels such as the media, the Internet, trade unions, consumer associations, industry groups, etc. This collaborative effort, combined with government supervision and market evaluations, helps to shape a multidimensional and comprehensive supervisory system. As a result, a communal environment that propels private enterprises to fulfill their corporate social responsibilities can be fostered.

## **6. Conclusions**

As the main participants in economic activities, leading providers of employment opportunities as well as key drivers of technological advancement, it is of critical importance for private enterprises to shoulder CSR. This is related to the long-term growth of the enterprises as well as the social stability and harmony. Meanwhile, it is imperative for private entrepreneurs to cultivate a sense of social responsibility consciously, take the lead in shouldering societal duties and engage in proactive initiatives to give back to the community. However, addressing the challenges related to the social responsibility of private enterprises is a gradual and demanding task. It requires the integration of enterprises' self-discipline, government supervision and social oversight.

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