

On the Awkward CSR Status of Chinese Household Appliance Enterprises— Take a Case of Haier as Example

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Abstract

Corporate social responsibility (CSR) becomes a vital part of corporate culture and strategy, and an organization's license to keep operating. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The case in the paper was a sad story and the action of Haier, and the comparison of actions between Chinese Companies and foreign companies reveals the CSR status in China. This article aims to find the cause by analyze the effects of culture, laws and development stage of company, and makes recommendation from both external and internal forces for company to improve its social responsibility performance.

Key words: Corporate social responsibility; CSR; Haier

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INTRODUCTION

Corporate social responsibility (CSR), a conception which was proposed by Oliver Sheldon, an English scholar, in 1924, did not prevail until 1960S, and gradually accepted by Chinese since 1990s. According to extant literature, the understanding of CSR is still confined by different discipline, perspective and actual

practice, and disagreement exists (Cui, 2007, p. 28-33). Main economists, like Classical economist Adam Smith, Harvard Scholar Adolf A. Berle and Milton Friedman, a Noble Prize Owner, argued that the only social responsibility of a company is to make full use of resources to fulfill the goal of obtaining profit, and give no thoughts to assume real social responsibility (Zhang & Li, 2009, p. 94-102). While many scholars, such as Oliver Sheldon and Merrick Dodd, held the view that corporate should have to try their best in both making profit and shouldering social responsibility (Chen & Jia, 2003, p. 85-92). From a legal perspective, Lu Dai-fu, a domestic scholar, classified social responsibility into four types: corporate economical responsibility, corporate social responsibility, corporate legal responsibility and corporate ethical responsibility (Lu, 2001, p. 137-144). Triple Bottom Line Theory, came up by John Elkington, added new blood for the research of corporate social responsibility, and this theory believed that corporate should make sure balanced development among economic growth, environmental protection and social responsibility. Although there is disagreement on definition of CSR, the rationality of CSR is undoubted and it's accepted that CSR is not about one thing but a combination of economy, society, environment and relevant aspects as social responsibility mindset is proving to be beneficial, and companies seeking to help people and the environment have been associated with better financial performance, increased creativity and innovation, and improving their competitive standing in the marketplace (Kassinis & Vafeas, 2006; King & Lenox, 2002) (essay 2). Generally speaking, CSR is a form of corporate self-regulation integrated into a business model, and take the interest of all stakeholders, such as employees, consumers, suppliers, government, partner and society, into consideration (Deresky, 2010, p. 49).

It can be said that CSR becomes a vital part of corporate culture and strategy, and in fact can become an

organization's license to keep operating. Nowadays, CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The case in the paper was a sad story and the action of Haier, the big and famous company, was kind of disappointing by blaming the responsibility to users, the parents in the case. While when the similar thing happened in other countries, companies took different steps, including Haier, so it's really needed to figure out the causality and give back the rights and convenience all consumers deserve.

1. BACKGROUND

1.1 The Brief Introduction of Haier and Development

Haier Group, a multinational company (MNC), started from a small factory which was on the brink of bankruptcy in 1984, and become one of the largest white-goods manufacturers across the world within 30 years. In 1984, Haier smashed 76 defective refrigerators under the leadership of Zhang Rui-min in order to raise the quality consciousness of workers, so the idea that defective products means rubbish took roots in Haier staff's mind, and the idea had helped the company succeed in both domestic and abroad. With the development, the company also pays attention to customer service and holds belief of "To be true forever", so we can see star service in Haier. It's admitted that quality and service distinguish Haier from fierce household appliance competition.

Just like other multinational companies, Haier is dedicated in social responsibility and lists every contribution on its website in sector of Social Responsibility. Its social activity is called Green Sail, which means vitality, environmental harmony and courage, and Haier is always taking public welfare into consideration and launching activities of Green Sail in charities to share the care and devotion with the whole world, in education to satisfy Teenager's thirst for knowledge, like Hope Project in China, and in Sports. As cited in the website, "Haier is ocean, actively does its duty as a global citizen. Haier people and the whole society shall become one. Haier group will be true forever".

After almost 30-years development, now the company is in the transformation from a manufacturer into an open platform providing leading appliance solutions to users. And its weakness is beginning to appear. On the one hand, Haier's competitive advantage is gradually weakened, compared with its strong domestic competitors such as Midea, Gree and other brands, Haier's growth during the past decade can be described as a significant slowdown. On the other hand, the authoritarianism and "one leader model" in corporate governance make it difficult for Haier

to train qualified successors, especially for the talented people, and Haier is facing the dilemma of having no suitable successor. The difficulties in both transformation and successor will risk its future development.

1.2 The Case and Its Problem

Recently, in Nanchang, Jiangxi province, the news that two little girls were found dead in Haier washing machine is attracting more and more people's attentions. At first, Haier responded without mention of product quality, and just answered like this: "the majority of users must strictly follow the use rules of home appliances, and take good guardianship of children, beware of the accidents." This kind of explanation didn't make public satisfied, and even brought the suspicion of whitewashing its own responsibility. Lately, the police ruled out the possibility of murder and proved the washing machine as a defective one with design problem. Haier didn't take it for warning, and didn't take this accident as a good opportunity to improve the product design and enhance the product safety. The behavior made many customers disappointed.

At the same time, several other Haier crisis incidents like "spontaneous gate" and "explosion gate" which happened in recent years were mentioned by public and media again. All public opinion once again pushed the Haier to the cusp, causing heated discussion among the citizens. Comparative to international competitors Sharp and LG, both companies had recalled defective washing machines from markets, and Haier just turned a blind eye to accidents in home country. While we can find information of Haier recalling "smoking" washing machines from Japanese market, so why does Haier, a well-known corporate, act total differently in domestic market and foreign market?

2. ANALYSIS AND METHODOLOGY

CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders (Deresky, 2010, pp. 49-60). It takes time to gradually accept the idea of shoulder social responsibility for corporate, and the main obligation of CSR is on the basis of culture background, which indicates that different organizations from different countries do not act like each other out of cultural difference, and on the basis of development phrase of a company, which means the bigger a company is, the more responsibility the one should take (Lu, 2010). So this paper seeks to find the hidden reason why Haier acts totally opposite on issue of safety accidents caused by defective washing machines from two aspects by comparative study.

2.1 Effects of Culture and Laws on CSR

Below is called A Moral Philosophy of Cross-cultural Societal Ethics by Robertson and Crittenden. From the figure, it can be seen that cultural difference is the basic and major factor affecting the behavior choice for a firm,

and then firm specific moderators, like corporate culture, policies and profit motive, are direct factor under the influence of macro-level and societal moderators, such as religion, historic tradition, economical development and law.

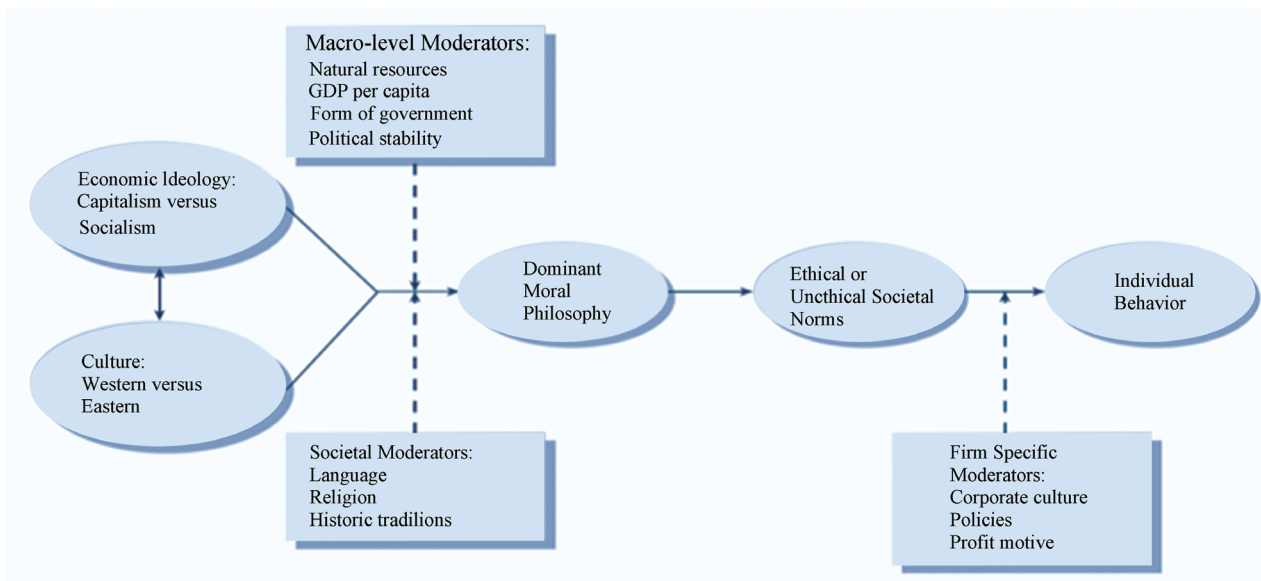


Figure 1
A Moral Philosophy of Cross-cultural Societal Ethics

Source: Robertson, C. J. & Crittenden, W. F. (2003). Mapping Moral Philosophies: Strategic Implications for Multination Firms. *Strategic Management Journal*, 24, 385-92. ©John Wiley & Sons, Inc. Reproduced with permission.

The natural cultural differences between western and Eastern decide the way people think and act. Westerners value faith, freedom and humanity, and easterners prefer abundance and tolerance as a result of history. Another important factor is the degree of economic development, and a strong company in the more developed country is more likely to have ability to survive in extensive competition at the same time it pays attention to social responsibility (Chen, 2009). So it's not hard to understand why big multinational company from much richer areas performs better and more ethically, because they can afford to do like this and are willing to when statistics showed that ethical behavior brings more profit than unethical (Kassinis & Vafeas, 2006; King & Lenox, 2002).

In some models, a firm's implementation of CSR goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law. Law plays a strict role in regulating CSR, and two systems of statute law and case law are the mainstream of law systems across the world and are always leading the trend of worldwide legislation. It's always to be proved that strict law can prevent and punish reckless behavior for good future.

As for defective products, America was the first one to establish the recall system and gradually improved the relevant law, and now the recall system function as a moderator of economic relationship between producer, distributor and consumer since 20c60s. A typical case

was that TOYOTA recalled more than 688 thousand cars with defective parts from European and North America in Aug. 2009 and received a heavy fine of 16.4 million dollars from America for concealing the real problem with accelerator and pedal, which made a new record of civil penalty (Jia, 2011). So it's right choice for LG and Sharp to recall the machine actively. While China did not have formal legislation on product recall until 2004, and tradition and practice is not mature yet.

China, as a big developing country, has been economy-centered for over 30 years, and has made too many generous and preferential policies to corporate at the cost of nature resource, environment and even public welfare. During past 3 decades, Legislation Department is always making law behind the industrial development. It's obvious that Chinese economy achieved a lot, while we are facing much graver conflicts, which are partly due to lack of law prevention and protection, just like the little girls in the case.

2.2 Effects of Development Stage on CSR

When a company starts its business, it may give little thought to CSR as for limited users are involved, and increasingly pays more attention to public welfare with the development. So we can see that manner in which corporations address CSR issues is evolving. Instead of having a "Corporate Social Responsibility" heading on a company website, companies are using more specific

terms to identify distinct CSR-related actions and company policies. These CSR-related terms are formed as new social issues emerge. In 1998, the most common CSR-related headings on corporate websites were community/civic involvement, environment, education, and charity (Esrock & Leichy, 1998). According to a research by Katherine and Julie (2013), common headings today include sustainability, ethics, diversity, and health/wellness. Properly articulating CSR activities has become a prevailing topic in corporate communication because the firm's reputation and legitimacy may be riding on it (Verboven, 2011). These changes on a company's website are development-based (Katherine & Julie, 2013, p. 156).

12 years after smashing refrigerator, Haier made compensation to a farmer who cleaned sweet potatoes with household washing machine, and found a niche market for new washing machine to clean sweet potatoes, fruits and even clam. Another example mentioned above is that Haier recalled smoking washing machine from Japanese market in 2010. While this time, Haier did not actively compensate for the afflicted family, and its behavior reflected on this incident is totally inconsistent with the image of itself as a large corporation and brought criticism on it. Compared to national competitors LG and its behavior in the past, Haier should take initiative in defective products issue rather than avoid in such an important transformation stage. As for area variation, the reason why Haier acts total differently in domestic and abroad market results from development stage, which means when Haier in different development phrase, it has to change the focus. However the world trend of CSR is good, Haier's response to the accident is much disappointing.

3. RECOMMENDATIONS

The exposed accident in the case is a little tip of the submerged iceberg, and defective products are thought to be less danger than work safety that deprives workers of over 1 thousand lives every year (according to statistics from State Administration of Work Safety), While the great pain and destruction defective products bring to people cannot be measured because life is priceless. So we cannot take risk at the cost of human rights and lives, the external forces and internal forces should make joint efforts. The external forces mean government, society, and internal forces mean the company and stuff.

3.1 External Forces

From external perspective, it's important to improve legislation and law system and necessary to build up a strict supervision and inspection system; on the other hand, it will be effective to introduce Corporate Social Responsibility Evaluation System and incentive mechanism to encourage company to make contribution to public welfare and social responsibility more actively.

Well-educated public or society, as a big power, plays a key role in supervising and exposing accidents and hidden danger with the help of mass media, and their high thinking of one good company about its performance in both product and public welfare is much more convincing than paid advertising. Both concrete and abstract effects from government and society are strong for a company to change on matter what is compulsive or positive.

3.2 Internal Forces

Internal forces are from company itself, and are based on a comprehensive corporate governance system with all employees' efforts. CSR activity requires collaboration of each department in a company. If the strategy of a firm does not care nothing but profit, and just allocate little budget to CSR activity, and the stuff is reluctant to devote themselves to it, CSR cannot go far. A comprehensive corporate governance system is an integration of company management mechanism including planning, producing, marketing, CSR and so on.

In China, there were so many failing examples: the development mostly relied on one leader's personal ability, and when something happened to the leader or leader leaved the company, the bad situation of the company came, such as D'long Group (Yu, 2009). It's typical Chinese leadership in the past 30 years. Chinese leadership system does not make space for growth of top manager to be real leader in the cultural background of high power distance (Chen, 2009). So for better, it's urgent for company to establish corporate governance system to replace the leader-oriented system and to change culture for transformation.

CONCLUSION

In the past, Haier was pursued by the public and media like the moon surrounded by a myriad of stars, and grows into a multinational company with high speed of development within 30 years under the influential leadership of Zhang Rui-min, the CEO, it's not long enough for it to build up a comprehensive corporate governance system and adopt culture into strategy.

Now for Haier, to realize a successful transformation as well as perform their social responsibilities is an important factor that decides whether Haier can make new history in the future. After over 10-year exploration in global market, to strengthen its international influence, Haier needs solid backup, such as tangible assets and intangible asset. Today competition requires internationalization and diversification of corporate goals, and companies cannot close the door to social responsibility. As for Haier, it's still a big undertaking and necessary to behave itself constantly, and two standards, one for global market, another for domestic market, are not welcomed. What's more, each company should pay attention to government regulation and public supervision.

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