

# GERMAN CHAMBER OF COMMERCE DEVELOPS SOCIAL RESPONSIBILITY IN CHINA

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German companies have been operating in the Greater Shanghai area since 1984 when *Volkswagen* (VW) established the first major foreign joint venture in the area. VW was soon followed by numerous suppliers, and over the next 30 years, German companies became an integral part of the industrial infrastructure of the region. This time represented a period of rapid economic growth and social change in China, and consequently also changing relations between foreign-owned companies and the host society. By the 2010s, young people started to look for more than a salary when choosing their job; social organizations were highlighting poor practices, and national and local governments put pressures on firms to raise their standards for labour, environment and transparency. Relevant legislation had been in place for many years, and gradually law enforcement was tightened.

German companies operating in China were generally enjoying high respect on account of their leading technology, long-term commitments in China, and attractive employment and career prospects. However, even long-term residents in China felt that they were not really part of the society. For example, Rolf Köhler, who for over two decades headed various *Freudenberg* businesses from Shanghai, China, said: Even though China has become a very important market, we Germans often feel we're outsiders in this country. Although ties in the economic and political sphere are getting closer, many companies still find it astonishingly difficult to become deeply rooted here. (Source 3, page 56)

In view of the evolving challenges in Chinese society, and the wish to grow deeper roots in the society, the German Chamber of Commerce (GCC) launched an initiative entitled 'China – more than a market'. Its starting point was the belief that German traditions such as the tradition of the 'honest merchant'

*This case has been developed solely for teaching purposes, and not to represent good or bad management practice. The facts have been represented in a simplified manner, and do not aim to provide a complete picture of activities of the companies mentioned.*

entail many values and practices that provide a solid foundation to develop what is popularly known as corporate social responsibility (CSR). Large companies such as VW or Bosch often had well-developed programmes of engagement with their diverse sets of stakeholders. However, many mid-size companies had ad hoc initiatives, but lacked resources for a comprehensive approach to CSR in China. They were looking for new ideas to enhance their social engagement, both as individual companies and as a community of German-owned companies.

In discussing their social responsibilities, German firms in China were concerned in particular with three sets of stakeholders (in addition to customers and suppliers). First on their mind were their local employees, along with the employees' families and the communities in which they lived. The recruitment and retention of skilled employees had become a major challenge for businesses in China, as young people in particular were quick to change jobs when offered a better salary or financial incentives. Thus offering employees more than a job and a salary was seen as essential to enhance the identification of employees with the company, and hence employee loyalty.

Second, an important stakeholder in all social activities was the Chinese government as represented by its various local entities. Principally, social policy was a responsibility of government in China, and business initiatives had to complement rather than compete with the official policy. Otherwise, unwelcome bureaucratic obstacles might arise. Bernd Reitmeier, an entrepreneur operating a business incubator in Kunshan, near Shanghai, describes the situation:

Good government relations are essential for any foreign company in China, but in our case particularly so, since the Kunshan government sponsors our project by providing land and factory buildings. Besides bringing investment and jobs to the city, our aim is also to support the local government by promoting higher standards, qualifying further workers and becoming a platform for further personal development with regular training offers for surrounding companies. (Source 3, page 32)

The relationship between businesses and social activities in China had shifted at the time of the Sichuan earthquake in 2008. To cope with the consequences of the disaster, the Chinese government invited companies—local and foreign ones—to contribute to its efforts by making donations to various initiatives, either in the form of cash or items in need—from tents to medical equipment. Since that time, companies had become involved in numerous initiatives such as poverty relief, environmental clean up, or education in rural areas.

Third, corporate headquarters are an important stakeholder because ultimately they have to be convinced to allocate resources to social causes. Many mid-sized German companies were very active in their local communities in their home base, especially those originating from smaller towns where they are a major employer. Yet from the perspective of corporate boards in Germany, stakeholders in China were not a primary concern, and they also lacked deep understanding what types of initiatives would be appreciated in China.

Many member firms of the GCC supported social initiatives in China, though not communicating these initiatives very actively. GCC board members believed that this was in part due to reservations among traditional mid-sized German firms about 'boasting' about things that they considered just good practice. In fact, some saw it as an unwelcome 'American' habit to talk too much about the social activities they considered a normal part of doing business.

Members of the GCC board believed that German firms could—and should—do more. First, more and better communication about ongoing activities would help their reputation in China. Second, forums were needed to facilitate the exchange of best practice: ideas developed by one member firm are likely to stimulate initiatives by others, and help better targeting initiatives to stakeholders. Third, the GCC aimed to get companies together to launch joint initiatives, and provided practical support for those exploring new ideas. Fourth, board members wondered if an annual award was appropriate to recognize outstanding social engagement.

To get the ball rolling, the GCC partnered with the *Bertelsmann Stiftung*, a charitable foundation, to launch a high profile initiative. The first step was a study to review companies' ongoing CSR activities, priorities and perspectives. This review of existing activities served as input for a GCC workshop that would discuss how to



take the social engagement to a higher level. A common theme arising was that companies preferred initiatives that directly involved their own employees, or donations of their own products. Financial philanthropy was seen as creating only weak links between the mission of their business and the social causes they are supporting. The study identified a wide variety of activities:

- 1 Many German executives prioritized engagement in education in China, notably vocational training. This took many different forms, from helping local colleges to develop their curriculum, to offering work placements. For example, *Schenck* (a subsidiary of *Diirr*) and *Kronos* support classes at local colleges that train employees in skills needed in the machine tool industry. Such initiatives help firms to develop human capital, especially skilled manual workers, an increasing challenge in the Shanghai area because talented young people often see manual work as unattractive.
- 2 Staff welfare in a broader sense is also high on the agenda. By engaging and supporting the families of their employees, companies aim to grow deeper roots in the local community. Some organize family days with sport activities for all generations; others invite family members to visit the workplace or open their sport facilities for family members on the weekend. An initiative particularly pertinent to the Chinese context is holiday camps for the children of migrant workers, especially those who live with their grandparents in distant villages and would not normally see their parents outside the New Year holiday season.
- 3 Wider education-related initiatives include, for example, collaboration with universities in curriculum development, research support or sponsorships. For example, *Bayer* collaborates with Tongji University in Shanghai by sponsoring a Chair for Intellectual Property, an Eco-construction Academy, and an annual Sustainable Development Forum. At the other end of the education spectrum, employees volunteer to teach in primary schools or orphanages. For example, *Freudenberg* rebuilt a local school damaged by the 2008 Sichuan earthquake, and then continued to support it; in a yearly summer camp, *Freudenberg* employees organize activities for the students.
- 4 Companies support volunteer work by their employees. For example, *SAP* gives its employees a 'social sabbatical' that they can spend on volunteer work in social organizations, and also makes its software available to NGOs. *Bayer* created a staff volunteer association, and grants each employee two days of volunteer leave. Such activities contribute not only to the target communities, but to the personal development and team spirit of the participating employees.
- 5 Many products offered by German companies contribute to key government policy agendas, notably in areas such as environmental pollution, universal health care and food security. German businesses were continuously innovating technologies to meet rising standards in Europe, and such technology was also sought after in China. In promoting these technologies to China, companies also thus help broader social and environmental objectives.
- 6 Beyond providing technologies, companies are promoting health, safety and environmental (HSE) standards. In the first instance, they target their employees, suppliers and customers. With a strong record of best practice, then, some companies are reaching out to provide training to social and governmental organizations, to advise regulatory authorities or to contribute to public awareness of HSE.
- 7 Continuing with a tradition that started with support for relief action after the Sichuan earthquake, many companies donated equipment or volunteer staff in local or national emergencies. For example, medical companies donated medical equipment, and pharmaceuticals companies provided drugs that were in short supply. After the 2013 earthquake in Ya'an, employees in many companies spontaneously collected donations, often topped up with donations by the company itself.

Some large-scale initiatives brought together several organizations to pool resources for a common cause:

- Many German-owned companies participate in, or initiate, social events in their host communities. For example, in several cities, including Tianjin, Guangzhou and Taicang (a district near Shanghai) they organize an annual 'Octoberfest'. Elsewhere, football is the centre of an annual day of family

entertainment. In Beijing, teams from twelve local German companies kicked off in 2014, and in the final *Siemens* beat *Volkswagen Finance* after a penalty shootout. In a similar event in Tianjin, *Volkswagen* had the upper hand over *Siemens* in the final.

- A vocational training school was set up in Jinan City, Shandong province, by six German companies (*Festo*, *ZF*, *VOSS*, *Hydrometer*, *Continental* and *Stihl*) in collaboration with the GCC and the Chinese Ministry of Education. Following the German dual education structure, the centre offers a three-year apprenticeship programme in which young people would work in the participating companies and receive formal training by the centre. The centre moreover offered two-week training courses for college teachers from across China, and became a role model for other initiatives by the Shandong government.
- Similarly, a Sino-German automotive vocational education initiative by five automotive companies – *Audi*, *BMW*, *Daimler*, *Porsche* and *VW* – aimed to advance the vocational training of car mechatronic assistants. Its goal was to create a network of 25 pilot schools that would offer courses matching the German dual educational system, thus providing qualified employees to participating companies and their partners.
- A large group of German companies cooperated with the local Chambers of Commerce in Hunan and Chengdu in a 'fair markets campaign'. Addressing the sensitive area of corruption, the campaign offered training workshops to small and medium enterprises on compliance issues, published a handbook on setting up compliance structures, and designed an educational computer game, all of which aim to help companies to fend off demands for bribes, and to detect suspicious transactions.
- The *Taicang Round Table*, a network of Austrian, German and Swiss companies, launched an initiative that is highly unusual for China: a factory that employs people with disabilities. In China, the inclusion (or even respect for) handicapped people is not yet well developed, and this factory provides them a rare opportunity to participate in a normal work life.

The GCC invited senior executives of key companies in the Shanghai area for a whole-day forum to explore further ways to engage with Chinese society. Participants cleared their busy work schedules for a day, switched off their mobile phones, and joined in for a day of discussions, reflections and creative thinking about the topic of 'more than a market'. The agenda was broad: the GCC wanted to develop channels for sharing best practice, facilitate collaborative initiatives between firms, and develop a broad and self-sustaining agenda to encourage more engagement and impactful initiatives with their host society. For the evening, the Consul General of Germany in Shanghai had invited all participants for a reception and dinner. Would they be able to share concrete results and commitments with him?

Sources: (1) Participant observations and interviews; (2) *German Chamber Ticker* (China), 2014, various news items, various issues; (3) B. Bartsch, K. Heikötter & M. Menant, 2015, *More Than a Market*, Gütersloh: Bertelsmann Stiftung. All quotations and named examples are drawn from the published sources; orally communicated examples are presented anonymously.

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What are the social responsibilities of foreign-owned firms in a host society?

Who is the creator of vocational training institutions a GGF activity of itself: good human resource management?

How can smaller companies with limited financial resources demonstrate their social and environmental values effectively?

What sort of initiatives could mid-sized companies realistically take together?

The GCC was considering creating an award to recognize outstanding initiatives by German firms in China. How would you design such an award?