

Weikert, Jochen

**Research Report**

## Re-defining 'good business' in the face of Asian drivers of global change: China and the global corporate social responsibility discussion

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## Studies

# Re-defining 'Good Business' in the Face of Asian Drivers of Global Change

China and the Global Corporate Social Responsibility  
Discussion

*Jochen Weikert*



Re-defining 'good business' in the face of Asian  
drivers of global change

## German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

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## Preface

China's rise is changing the basic structures of the global economy in a very fundamental way. Trade and financial flows are shifting, resource prices are rising, international labour markets are affected, global economic governance patterns will change. This study tackles a highly relevant issue within this newly emerging global context. Jochen Weikert looks into legitimisation strategies of globalising Chinese companies: Do Chinese global players align with western blueprints (such as SA8000 or the OECD Guidelines for Multinational Enterprises) or rather reject them, in order to make room for self-designed forms of legitimising business action? In the recent past, there have been extended discussions over the issue, for instance on the role of Chinese companies on the African continent. But these discussions have rarely been grounded in sound empirical research. By virtue of the ample empirical evidence that supports his arguments, Jochen Weikert may well be able to balance the at times one-sided arguments in the debate. Certainly, more such empirical groundwork is needed in order to shed light on grey-shaded accounts of existing conjectures, so that a more realistic, colourful picture of the integration of Chinese actors in the world economy may be revealed.

Those interested in the evolution of the global "Corporate Social Responsibility (CSR)" debate are encouraged to closely observe the theoretical parts of this study. Here, the author does not content himself with reviewing the sometimes shallow CSR literature. Rather, he is interested in the underlying causes explaining why corporations feel the need to articulate their social responsibilities towards societies in a globalised market economy. In times of dwindling trust in market actors and institutions, there are plenty of reasons to better understand the deep structure of businesses' social legitimisation patterns.

The theoretical approaches that the author employs are quite heterogeneous. However, the elements of classical sociological thought, institutional economics and corporate governance theories become enlaced in ways that form a consistent structure.

How will the global business strategies of Chinese firms as relevant 'Drivers of Global Change' impact on the CSR discourse that once emanated from the West? The conclusions are interesting because they do not draw a



simple sketch. The internal Chinese debate emancipates itself from western prescriptions, but the business legitimisation problem per se is being adopted and tied in with China's own legitimisation discourses. Notwithstanding, Chinese global players are quickly learning and adopting the globalised CSR discussion and this study demonstrates how they will influence its future evolution.

Jochen Weikert shows the room for manoeuvre when discussing the rules of the game in the global economy with China. He also indicates the dead ends, for instance the hopes that China may adopt western standards in linear ways. Globalisation on the one hand, a power-backed desire for emancipation and national orientation of policies on the other, and the ambiguities that emerge in the overlaps – these are the dimensions of the arena within which we will negotiate the future global order with China and other emerging powers.

Bonn, June 2011

Dirk Messner

## Acknowledgements

Looking back at a challenge that seemed to be beyond one's capabilities at the time when it began can be a disenchanting exercise. As he looks back at the peak he has climbed, the mountaineer soon loses his awe of the mountain. He already scans the horizon for the peaks to approach next. It seems to be the way in life that the hikes to be taken next always seem to be more difficult than the previous ones, so that earlier accomplishments become superseded by the next challenges. Disenchantment as it may should not be an excuse for forgetfulness. The mountaineer must not be oblivious to the fact that it took many to take him to the summit. It would be self-deceptive to assume that only his own muscle, energy, strength of will and mind-power took him there. Instead, many carried the loads, many cleared the way, and many shielded him from disturbances – him who ventured out to master a challenge that was indeed beyond his individual capabilities.

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(INEF) of the University Duisburg-Essen, I would not have managed, as an off-campus candidate, to live up to the high scientific standards upheld in both institutions. I would like to thank the organisers of these colloquia, Oliver Schlumberger and Jörn Grävinholt at the DIE and Cornelia Ulbert, Hartwig Hummel, Walter Eberlei, Christoph Hartmann and (the second supervisor of this thesis) Tobias Debiel at the INEF.

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Without any doubt, there has been one single person, who made me want to climb this mountain in first place. Driving me close to insanity, by relentlessly asking what exactly it was, I wanted to find out, challenging me again and again with his very unusual, very creative thinking and finally consoling me through the very usual ordeals of answering (what exactly it was, I wanted to find out), Bernd Gutterer can be rightfully called the prime mover of this project.

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Berlin, April 2011

Jochen Weikert



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## Abbreviations

A	Asian Drivers-type of good (legitimate) business
ACFTU	All-China Federation of Trade Unions
AIG	American International Group
BACL	Beijing Air Catering Co. Ltd.
BIAC	Business and Industry Advisory Committee to the OECD
BoC	Bank of China
Boftec	Bureau of Foreign Trade and Economic Cooperation, City of Shenzhen
BRIC	Brazil, Russia, India and China
BSCI	Business Social Compliance Initiative
BSR	Business for Social Responsibility
CAGR	Compound Annual Growth Rate
CAITEC	Chinese Academy of International Trade and Economic Cooperation
CAQDAS	Computer-assisted Qualitative Data Analysis
CBCSD	China Business Council for Sustainable Development
CBRC	China Banking Regulatory Commission
CC	Corporate Citizenship
CCB	China Construction Bank
CCP	Communist Party of China
CCTV	China Central Television
CEO	Chief Executive Officer
CIMG	China International Mining Group
CMEs	Coordinated Market Economies
CNCA	Certification and Accreditation Administration of the People's Republic of China
CNPC	China National Petroleum Corporation
CNOOC	China National Offshore Oil Corporation
CNTAC	China National Textile and Apparel Council



CoC	Code of Conduct
COSCO	China Ocean Shipping Company
CPPCC	Chinese People's Political Consultative Conference
CSC9000T	China Social Compliance 9000 for Textile & Apparel Industry
CR	Corporate Responsibility
CSA	Corporate Social Accountability
CSER	Corporate Social and Environmental Responsibility
CSR	Corporate Social Responsibility
DRC	Democratic Republic of Congo
DSS	Dispute Settlement System
dt A	'discourse type' of A
EADI	European Association of Development (Research and Training) Institutes
EICC	Electronic Industry Code of Conduct
EIWG	Extractive Industries CSR Working Group
ESC	Economic, Social and Cultural (Rights)
ETI	Ethical Trading Initiative
EU	European Union
FDI	Foreign Direct Investment
FLA	Fair Labour Association
FTA	Foreign Trade Association of European Retailers
G20	Group of 20 (largest national economies and the EU)
G8	Group of Eight (largest national economies)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
HR	Human resources
HU	Hermeneutical Unit
IA	Impact Assumption
ICBC	Industrial and Commercial Bank of China

ICT	Information and Communication Technologies
ILO	International Labor Organisation
IMF	International Monetary Fund
InWent	Capacity Building International (Internationale Weiterbildung und Entwicklung gGmbH)
IOC	International Olympic Committee
IFRS	International Financial Reporting Standards
ILO	International Labour Office
IPO	Initial Public Offering
ISO	International Organization for Standardization
LMEs	Liberal Market Economies
MAI	Multilateral Agreement on Investments
M&A	Mergers & Acquisitions
MDG	Millennium Development Goals
MEP	Ministry of Environmental Protection
MNE	Multinational Enterprise
MofCom	Ministry of Commerce
NDRC	National Development and Reform Commission
NGB	New Global Brands
NGO	Non-Governmental Organisation
NGS	New Global Sourcers
NIEO	New International Economic Order
O	OECD type of good (legitimate) business
ODA	Official Development Aid
OECD	Organisation for Economic Cooperation and Development
OEM	Original Equipment Manufacturing
OR	Organisational Responsibility
PBP	Private Business Pioneers
PD	Primary Documents
PLO	Palestinian Liberation Organization
PPP	Public Private Partnership

PPP	Purchasing Power Parities
PR	Public Relations
RBC	Responsible Business Conduct
RDE 100	100 Companies from Rapidly Developing Economies
RTRS	Roundtable for Responsible Soy Bean
SA8000	Social Accountability 8000
SAFE	State Administration of Foreign Exchange
SAI	Social Accountability International
SASAC	State-owned Assets Supervision and Administration Commission of State Council
SC	Sustainable Competitiveness
SED	Supply-End Drivers
SEPA	State Environmental Protection Administration
SOE	State-owned Enterprise
SOMNE	State-owned Multinational Enterprise
SWF	Sovereign Wealth Funds
UN	United Nations (Organisation)
UNCED	United Nations Conference on Environment and Development
UNCSD	United Nations Commission on Sustainable Development
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Commission on Transnational Corporations
VoC	Varieties of Capitalisms
VA	Variation Assumption
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development
WRAP	Worldwide Responsible Apparel Production
WTO	World Trade Organization

## Executive Summary

The legitimacy of business action in globalisation poses a challenge for the emerging global governance architecture. Whereas in earlier times, accusations against businesses came from the margins of societies, now, and particularly after the global financial and economic crises of the recent years, mainstream actors heavily criticise the corporate world. Around the globe, the public's opinion of business sunk to all-time lows. This threatens the legitimacy of an important social institution in most economies and of a critical global governance actor.

For some time already, issues around businesses' role in societies have been discussed – although less so in scientific debates – under the header 'corporate social responsibility', ('CSR' or corporate responsibility, corporate citizenship etc. alternatively). Many books have been written on the corporate responsibilities of TNCs as global corporate citizens to contribute to sustainable development. Few among them, however, provide an analytical explanation of businesses CSR activities: Why do they engage in costly corporate social responsibility activities, even if they are not legally required to do so?

### *'Good business' is legitimate business*

This research wants to transfer the notion of corporate social responsibility into the realm of political science (see chapter 1). It starts off from the assumption that corporate social responsibility is about legitimate forms of business behaviour and action in the globalised world. In the pre-globalisation era of the late 20th century, the responsibility of businesses in societies has been debated within nation-state confined contexts – or not at all. Since about the mid-nineties, corporate social responsibility has emerged as a global discussion. This discussion has been fuelled by incidences, in which misconduct of businesses in outsourced production sites (of e.g. violations of social and labour standards in so-called "sweat shops") has been subject to scrutiny and sanctions. In most cases, these incidences occurred outside the densely regulated OECD economic areas, e.g. in the export zones of the developing world.

TNCs were held accountable for misconduct in their supply chains – however not by prosecutors, but by their own constituencies, the “stakeholders” (Freeman 1984; Freeman 2004; Freeman et al. 2004) of the companies. Well-informed and trans-nationally networked consumers, NGOs and interest groups, regulators and investors, increasingly questioned the legitimacy of (at least) parts of the firms’ behaviour. Ultimately, in response to these stakeholders’ sanctioning potential and in the face of absent global rule-making and enforcement, TNCs committed to self-designed corporate social responsibility principles and practices.

The scientific analysis of the emergence of the CSR debate is an enlightening exercise (see chapter 3): In synopsis, the incongruence of legality and legitimacy of business action leads to *anomic* situations: If the global division of labour and the global economic exchange advances faster than the global rules systems, under-institutionalised – anomic – situations occur. In anomic situations, the exchange partners cannot rely on a shared morale as a stable basis for the exchange transaction. As a result, the costs for designing, monitoring, and enforcing contracts – transaction costs – increase. Therefore, anomic situations pose a transaction cost problem to businesses that buy, sell and invest within the framework of deficiently institutionalised global markets.

In adapting to anomic situations, businesses restrain themselves by self-imposed corporate social responsibility rules and definitions in order to compensate for the deficiently institutionalised trans-national frameworks they operate in. By doing so, they replace uncertainty with calculable risk: the risk of being wrong in what the transnational stakeholders – the businesses’ sanctioning constituencies – deem to be ‘good business’, i.e. *legitimate business* in the globalised world. The communication and promotion of corporate social responsibility policies can thus be understood as the efforts on behalf of businesses to resolve anomy and to construct a proto-institutional framework in their hitherto under-institutionalised global sphere of action. Therefore, the global corporate social responsibility debate can be regarded as the arena in which the quest for definitions of legitimate forms of doing business in the globalised world takes place.

*Asian Drivers of Global Change enter the debate*

However, the discussions on legitimate business behaviour are subject to comprehensive global change. And important agents of global change originate in the 'Asian Drivers' countries India and China (see chapter 3). The label of a 'driver of global change' has been attached to different nations in history: Portugal and Spain during the early European expansion, later The Netherlands and the UK during high imperialism. The period since 1989 saw a unilateral exertion of economic, political, military as well as soft power by the United States. In the views of many observers, however, the ascendancy of China, together with India, now marks the wake of an 'Asian century'.

Indications for this can be found in the exponential economic development of the Asian Drivers.

These exponential development dynamics have repercussions throughout the inter-related global economy. Already in 2001, Goldman Sachs' chief economist Jim O'Neill predicted that by the mid of the century Brazil, Russia, India and China would have overtaken the six largest western economies in terms of size. With the help of his 'BRICs' concept, O'Neill and his followers redrew not only the investors' cognitive map of the world, but also the political thinkers'.

Inside China, "*the idea of China's 'peaceful rise' to international prominence as a responsible, peaceable, and non-threatening global power was introduced by Zheng Bijian [a respected intellectual, affiliate of President Hu Jintao and chairman of the China Reform Forum] in November 2003*" (Suettinger 2004, 1). In a similar fashion, Indian politicians publicised the slogan 'Shining India', referring to an overall economic optimism in the country. The internal debates in both countries reflected the optimistic self-perceptions at the beginning of the century, when the economic growth prospects began to be noticeable to a broader audience and were epitomised by the simultaneous booms of the manufacturing industry in China and the IT service industry in India.

The global governance literature in political science picked the rise of the "Asian Drivers of Global Change" as a central topic. This debate

broadly sees the largest Asian economies India and China as agents that change the rules of the game in the global political economy (Kaplinsky / Messner 2008, 3). These changes are not moderate and incremental, but materialise in the form of tectonic shifts (Humphrey / Messner 2006, 1; Kaplinsky / Messner 2008, 199; Wolff 2006, 5) as a result of which the current power constellation in the global political economy might dissolve into unstable multi-polar formations (Humphrey / Messner 2006b; Fues et al. 2006; Fues 2007).

Therefore, this study bases on the assumption that ‘Asian Drivers’ actors exert significant impact on the so far OECD world-led ‘good business’ debate. In consequence, the global business legitimacy governance drifts towards the Asian Drivers’ conceptions and beyond its current OECD frame of reference. The future global business legitimacy discussion will *be Indian* and *be Chinese* to a much higher degree than most expect today. And today’s global crises, perceived by many as a failure of the western institutions of capitalism, catalyse this process.

### *Research approach*

Since it is a relatively new research field that is approached here, reviewing the pertinent literature does not arrive at unambiguous results. Therefore, the field is being prepared, approximated and structured with the help of qualitative empirical methods (see chapter 2), in order to make it accessible for an ongoing scientific exploration. In order to make inroads into hitherto uncharted research terrain, this study develops benchmarks of the OECD patterns of business legitimisation, with the help of which the Asian Drivers’ patterns may be silhouetted (see chapters 2 and 5). The variance between both patterns sheds light on the impact that the Asian Drivers might exert in this particular field of research.

For reasons of research practicality, this study observes China. It looks at the Chinese models from the angle of the so far dominant OECD-led debate: is there variation between the practices of business legitimisation of OECD actors and the Asian Drivers? Degrees of variation array

along a spectrum, which is contained in a *global capitalism dimension* (elaborated in chapter 3).

In order to measure degrees of variation in the Chinese businesses' practice, several classes of Chinese *business drivers* are observed (see chapter 4):

- (1) State-owned Multinational Enterprises
- (2) Private Business Pioneers
- (3) Supply-End Drivers
- (4) New Global Brands
- (5) New Global Sourcers

For each of these classes, one or two companies have been surveyed, in order to find out about the ways in which they confront the legitimacy challenge in their particular operational context. Ways of legitimising business action is grasped in four variables (see chapter 3):

- i) role models,
- ii) ideational stakeholder inclusion,
- iii) procedural stakeholder inclusion, and
- iv) output legitimacy

For each of these variables a Chinese and an OECD benchmarks have been defined. With the help of these benchmarks, the empirical cases of Chinese businesses are scrutinized.

In a second step, conclusions on the resulting impact are being drawn: What is the impact of the interaction between the OECD's and the Asian Drivers' types of business legitimisation *on the global discussion*? These conclusions are drawn in the perspective of a *global change dimension* (elaborated in chapter 3). And whereas the global capitalism dimension enables to observe the variance between the institutional set-ups of different capitalist systems (*varieties of capitalisms*), the global change dimension encompasses, first, the growing impor-



tance of business actors in global governance and, second, the rise of China and India as drivers of global change.

### *Important results*

Empirical research along the global capitalism dimension surfaces significant variance between the OECD's and the Chinese businesses' legitimisation patterns. The corporate social responsibility discussion in China has in fact originated in a manner to comply with OECD-stakeholders' preferences. For instance, the OECD stakeholders' notions of adequate social standards at work entered codes of conduct that were enforced, by grace of their superior bargaining position, in the OECD based TNC's supply chains. In this, the preferences of non-OECD stakeholders have so far played a negligible role.

However, the corporate social responsibility discussion in China has some time ago progressed beyond this stage. There is now a *Chinese corporate social responsibility discussion* that orients itself towards domestic role models and responds to domestic stakeholders' claims (see chapter 5). In the OECD-led corporate social responsibility discussion, 'sustainable development' is the dominant role model. The idea of sustainability became the dominant role model for the wider global development debate in the OECD, and hence for the OECD's discussion on legitimate business. The role model increasingly referred to in China, however, is the 'harmonious society'. The 'harmonious society' concept embodies five sets of goals to be balanced in the development of the Chinese society: urban versus rural development, eastern (coastal) versus western (inland) development, social versus economic development, internal versus external policy issues and human development versus the conservation of nature. The concept, which has been announced by the political leadership after Wen Jiabao and Hu Jintao assumed power in 2002, has soon been intertwined with the newly initiated Chinese discussion on corporate social responsibility. Although the 'harmonious society' can be regarded as a slogan of the communist party, there is an important functional aspect to it: Chinese businesses urgently need to play a role in promoting, developing, and maintaining social cohesion in an increasingly fragmented society.

Besides the theme of the harmonious society, the corporate social responsibility debate in China sometimes refers to concepts of an honourable 'Confucian businessman' (Cheung / King 2004; Ho 2006) or to concepts of 'soft competitiveness' (Wang Z. 2006, 3; Wang Z. 2008). Common to all concepts to be found is the emphasis that the issue of CSR can be effortlessly related to own circumstances and own cultural heritage. Whereas Chinese actors initially rejected any notion of corporate social responsibility at all, because they perceived it as imposed on them by the West, they now embrace it firmly, so as to effect on it a rich endowment of 'Chinese characteristics'. Hence, the current business legitimacy discourse in China emphasises endogenous drivers and that way pronounces the variance of its corporate social responsibility discussion to the exogenous OECD standards and practices.

However, is this distinctively Chinese variety of legitimising business in fact action-guiding for Asian Business Drivers, whose sphere of action is increasingly often a global one? Surprisingly uniform answers to this are found in the observation of Chinese businesses' legitimisation practices: With one exemption, all businesses align their legitimisation practices rather well with the OECD benchmarks (see chapter 5). The Chinese corporate social responsibility discourse seems to be less action-guiding than one would have expected. In fact, all companies seem to navigate rather proficiently within the OECD's CSR discussion and stress the need to align with it.

Thus, the empirical groundwork of this research poses a riddle that needs to be explained: How can the extended discussions on distinct varied Chinese role models and alternative concepts for 'good business' be explained, when at the same time Chinese businesses align rather well with the OECD benchmarks? It is argued that the antitheses can be resolved, and observing and analyzing the dynamics that shape the processes when new drivers of global change enter agreements with old drivers provide for the analytical key. The process of the reception in China of the OECD world-based standard SA8000 provides for an example (see chapter 5). It shows how Chinese actors enter into global agreements – here, in the particular field of the global business legitimacy governance.

The central result of this exercise is a pattern model (see chapter 6) that holds explanatory power for those situations, where a group of actors joins in (or is expected to join in) comprehensive agreements, and both the group's relative bargaining power and the group's interpretations of the issues to be agreed on are dynamic factors to consider.

This pattern model shows, how strategies that seem contradictory may be explained: Simultaneous rejection of, and alignment to, OECD-led patterns of legitimising business is an effective adaptation strategy for Chinese actors in the ascendancy situation. Variance can be explained by gains of Chinese bargaining power in (and the discussions around) the global value chains and an accentuated desire for emancipation from western prescriptions. Alignment can be explained with the desire of Chinese actors to avoid excessive transaction costs, which are entailed by variance. Depending on the particular constellation under observation, variance or alignment patterns may overlap and interrelate.

In order to design coping strategies for these and similar global governance challenges, thus, the dynamic bargaining processes around alignment and variance need to be taken into focus. This study concludes that *the way in which variation or alignment take place* is interesting and relevant for the debate. For instance, coping strategies would anticipate the importance of symbolic politics that determine, independently from the content of policies, the chances for proliferation of policies: In the perspective of symbolic politics, not so much the policy itself, but rather the way the policy is being conveyed, makes an agreement more or less likely. Ultimately, variation or alignment strategies (trajectories are identified and conceptualised in chapter 6) evolve not in linear and unidirectional ways, but according to specific, in parts ambiguous, patterns. These patterns determine the emerging global governance structures – in the particular field which has been observed and arguably also beyond.

## 1 Introduction

Tariq Banuri, a Director at the United Nations (UN) Department of Economic and Social Affairs, introduced the results of his recent country-focused research to an audience of political scientists: ‘Earthland’ is home to 6.4 billion people with an average per capita income of about US\$ 6,400. It comprises an area of 136 million square kilometers and has 207 federal states. 15 per cent of Earthland’s population lives in the North of the country, and 85 per cent in the South and East. However, Earthland is very unequal overall – and even more so than any of its federal states. Per capita income is approximately US\$ 32,000 in the North, but barely US\$ 1,600 in the South. Governance in Earthland is also problematic. It is a dualistic, apartheid, corrupt and very weakly governed fragile state.<sup>1</sup>

This study is about this fragile state’s economy, and the economy’s most important institution: business. Given its context, it is not surprising that Earthlandic business gives rise to recurring crises that affect the whole country. It holds a precarious position in a society within which the question, what ‘good’ business was is increasingly being asked.

### 1.1 A global crisis of business legitimacy

Earthland’s business, i.e. the global business sector, is in severe crisis: In earlier times, criticism of business came from the margins of society. According to this criticism, the particularised possession of means of production and the particularised appropriation of profits within specialised organisations that are protected by national laws would further social disintegration and inequality. Now, after the financial and economic crisis has been in full swing in nearly every part of the global economy, even mainstream actors have declared business as outright evil. The US-Senator Charles Grassley proclaimed that “resign or go commit suicide” were the only honorable choices left to executives of the American International Group (AIG) (The Economist, March 21st 2009, 16). Executives at the “headquarters of greed” (Der Spiegel 29/2009, 42) had taken US\$ 220 million in bonuses, despite the fact that only months ago AIG had to be bailed out with US\$ 170 billion of taxpayers’ money. The annual ‘Edelman Trust

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1 Tariq Banuri at the 12th Annual Conference of the European Association of Development Research and Training Institutes (EADI), Geneva, 24 to 28 June 2008. See also EADI (2008, 6).

Barometer' has never measured a more dramatic drop in confidence in business (in its survey in 20 countries on five continents) than in 2009: *"Business has had a disastrous year, well beyond the evident destruction in shareholder value and the need for emergency government funding. Whereas the problems of corporate trust were limited largely to New Economy enterprises like Enron and Global Crossing in 2001–2003, companies at the center of the global economy are in serious trouble in 2008–2009"* (Edelman 2009). The empirical findings are echoed in the global media: *"The only thing that sunk lower than the public's opinion of Congress during this recession is its opinion of business"* (Time, 21 September, 2009, 31).

The global financial and economic crisis calls into question not only on the viability, but the very legitimacy of market institutions and market actors, most clearly among them businesses. However, if the legitimacy foundation of world economy is not secured, this may raise social conflict (Kaiser 1998; Messner 1999).

This state of affairs is complicated by the fact that global change is not only rapid; indeed it is accelerated by the crisis. 40 years ago, the US was the world's largest creditor. Stability in the world largely depended on decisions made in Washington, DC. Today the US is the largest debtor and decisions made in Beijing or elsewhere are becoming increasingly important for global governance<sup>2</sup>. Asia's growing political weight is a result of its economic development: The Asian Development Bank projects a handsome six per cent of growth for Asia for 2010 (Financial Times Deutschland, 23 September, 2009). The International Monetary Fund (IMF) expects that China alone will account for almost three quarters of the world's economic growth in the three years from 2008 to 2010 (Time, 10 August, 2009, 30). As Western economies flounder, Asia leads the world out of the crisis and thus sees a chance to assert itself. After all, according to the Deputy Governor of the People's Bank of China, the onset of the financial crisis was closely related to flaws in the Organisation for Economic Cooperation and Development (OECD) country-led international currency system and the growth patterns and economic policies of some industrialised countries.<sup>3</sup>

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2 Cf. Ngaire Woods, Director, Global Economic Governance Programme, Oxford, UK, at the 12th Annual Conference of the European Association of Development Research and Training Institutes (EADI), Geneva, 24 to 28 June 2008. See also EADI (2008, 14).

3 Hu Xiaolian, in: Frankfurter Allgemeine Zeitung, 24 September, 2009, 13.

In order to account for these dynamics, this study is also about the changing relation between the northern and the eastern areas of 'Earthland'. China and India are new powerful actors in the global governance architecture, actively driving global change. And whereas some absolute figures on China and India are still moderate compared to the industrialised countries' (e.g. global Foreign Direct Investment [FDI] stock, see Rosen / Hanemann 2009, 8), dynamic indicators reveal exponential development logics: Per capita income for developing Asia more than doubled since the Asian crisis of 1998 (Roach 2009, xi) – with average annual growth rates of 9.1 per cent from 1995 to 2004 for China and 6.1 per cent for India (Winters / Yusuf 2007, 6). On-year growth of mobile phone use in India has been 55 per cent in January 2007 (The Economist, 13 January, 2007, 55). On-year growth of the car market in China has been 76 per cent in October 2009 (Handelsblatt, 10 November 2009, 7). The flow of goods between China and Africa has risen fivefold from 2000 to 2006 (Fues et al. 2006, 1). Passenger air traffic in China increased from 7 million in 1985 to 185 million in 2007. China spent 35 times as much on imports of soy and crude oil in 2008 as it did in 1999 – and 23 times as much on importing copper (The Economist, 15 March, 2008, 13). Labour disputes per million workers in 2006 were twelve times the figure of 1995 (Wang K. 2008, 195). This list of indicators could be extended, and the more indicators are observed the more evident the exponential logic behind the Asian Drivers' ascendancy becomes. The suddenness and scale of this ascendancy, however, causes grave adaptive pressures in all parts of the world, the management of which challenges the current global governance architecture.

This study discusses the legitimacy of 'business' as a social institution against the backdrop of rapid global change. But whereas the global economic crisis is an expression of imminent global change, this study assumes the more comprehensive waves of global transformation (Messner 2007a) of *first*, globalisation and *second*, tectonic power shifts due to the ascendancy of China and India as new drivers of global change as its background. It is expected that these longer waves globally overhaul the established patterns of legitimising business as a social institution. And whereas the current crisis has provoked bold statements – on "globalisation in reverse" (The Economist, 21 February, 2009, 57), on "de-globalisation" (Plender 2009), and on the market as a "tumbling monument" (Frankfurter Allgemeine Zeitung, 16 August, 2009, 43) – many of which may be short-lived, the 'good business' discussion is likely to last. It is argued that the norma-

tive discussion on what a corporation should do in order to qualify as a ‘good business’ or in order to live up to its ‘corporate social responsibility’ is a response to the longer waves of global transformation. These *firstly* leave business bereft of its earlier nation state-confined legitimacy setting, and *secondly* interacting on the borderline between the discussions on business legitimacy of the old OECD drivers and the new Asian drivers.

This study thus poses the question, *what ‘good business’ is in the global economy*, and suggests that answers need to observe a *global business legitimacy governance* that is increasingly impacted by China and India. The exercise of re-defining ‘good’ – i.e. *legitimate* – business faces the ascendancy of these new Asian Drivers of global change.

By elaborating on the issue of business legitimacy, this study also seeks conclusions that are applicable to the wider context of global governance. From the dynamics observed, patterns are distilled that may also be valid *beyond* the particular policy field they emerged from. These patterns may be able to align with international relations research on urgent questions in the age of globalisation, such as: Is the global economy drifting apart or organically growing closer? Are the new drivers of global change integrating into the established status quo or are they revisionist ascending powers? (Kennedy 1987; Kennedy / Messner / Nuscheler 2002) Do they align with the rules of the ‘old drivers’ or self-confidently reject them in order to introduce ones of their own design? What are the implications for the resulting global governance architecture?

## 1.2 Summary of research design

For a quick reference, the following provides a summary of this study’s research design.

The present study observes business legitimisation in the global economy as a global governance problem that is aggravated by current economic crises. It is argued that the business legitimacy discussion has been going on for some time, albeit under the “catch-all phrase” (Schwab 2008, 107) ‘corporate social responsibility’. It is further argued that business legitimisation patterns are evolving with global change, and important change agents stem from the Asian Drivers China and India. These are assumed to exert influence on the evolution of the discussion on ‘good business’ that has so far been led by the OECD world.

Thus, the research object 'global business legitimacy governance' is not determined within its current OECD frame of reference. However, little systematic knowledge exists on the Asian Drivers' patterns. Therefore, this study uses the better-known OECD discussion as a benchmark for OECD type business legitimisation practices. Against this OECD benchmark, the Asian Drivers' type of business legitimisation practices is measured. If – as is assumed here – the latter varies to the former in significant ways, then the interaction between the two impacts on future governance patterns. The future global 'good business' discussion will *be Indian* and *be Chinese* to a much higher degree than most expect today. Today's global crises, perceived by many as a failure of the western institutions of capitalism, catalyse this process.

For reasons of research practicality, the present study limits itself to observing emerging global players from China. The study *first* looks at the Chinese models from the angle of the so far dominant OECD-led debate: is there *variation* between the practices of business legitimisation of OECD actors and the Asian Drivers? Degrees of variation array along a spectrum in the *global capitalism dimension*.

*Second*, conclusions are drawn on the *impact* of the Asian Drivers: What impact will the interaction between the OECD actors' and the Asian Drivers' type of practices of business legitimisation have on future global types? Arguably, the impact is contingent on the degree of variation observed during the first step. The conclusions are drawn in the perspective of a *global change dimension*. The global change dimension encompasses the growing importance of business actors in global governance and the rise of China and India as drivers of global change.

The study observes features of the global business legitimacy governance, which can furthermore be outlined in two dimensions: the *global capitalism dimension* and *global change dimension* (see fig. 2). With the help of this framework, important aspects to be included in this research are highlighted:

#### *Global capitalism dimension*

Business legitimacy in the contemporary global economy is precarious, because globalised businesses have departed from earlier legitimacy frameworks confined within the nation-state. Institutionalised practices with the aim of meeting the challenge of legitimising business may vary across different forms of capitalisms.



### *Global change dimension*

The globalisation still led by the OECD maintains the social division of labour by means of cross-border industrial organisation (Gereffi / Humphrey / Sturgeon 2005, 82) in global value chains. As the businesses' constituencies become more fragmented, the extension of the social division of labour in transnational spheres of action further aggravates the challenge of legitimising business. Furthermore, as the new drivers of global change, China and India in general, and businesses from China and India in particular, play an increasingly meaningful role in the global value chains, and thus in the emerging business legitimacy governance.

Summing up these observations suggests that the still dominant OECD approaches to meeting the challenge of legitimising business are increasingly overruled by those of the Asian Drivers when interacting in the global value chains. The future discourse on 'good business' will be impacted by the approaches of the Asian Drivers.

As the pertinent theories do not satisfactorily answer the urgent questions raised, this study builds on them by means of qualitative empirical research.

### 1.3 'Good business' in the changing global economy

*"'Oh, no, not another CSR auditor again', I muttered to myself, 'let's see what she has to tell us this time'"*<sup>4</sup>.

Why does a manager of a Chinese supplier factory worry about a Corporate Social Responsibility (CSR) auditor? Why do actors in the global value chains need to discuss corporate social responsibility or 'good business' behaviour? Why did the globalisation of this particular discussion, which originated in the Anglo-American world, coincide with the globalisation of the world economy of the past two decades? More intriguingly, in a time when shareholder value orientation is obligatory for listed corporations – i.e. not to 'misuse' the legal owners' resources on purposes other than the maximisation of shareholder value – why does spending of not insignificant resources on corporate social responsibility issues (Corporate Register 2008) occur, moreover during the recent economic crises? And that even in

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4 Gordon Wu, Human Resources Manager of an apparel factory in Guangdong province, PR China, at the closing event of the InWent/TÜV Rheinland PPP program FIT FIVE, 1 December, 2007.

Central-European market economies, which are even more stakeholder-oriented (Höpner 2001). What will ultimately become of this discussion and how will ‘good business’ be defined after the imminent waves of global transformation – most clearly manifested in the emergence of the Asian Drivers of Global Change – will have broken over the heads of the discussants?

The following chapters prepare a framework for tackling these questions that are elaborated in the course of this study. This framework sketches the ‘good business’ discussion using categories of political science in order to make the multi-faceted processes of definition and communication in the global arena accessible to scientific research. It will be argued that ‘good business’ is in fact – translated into the language of political science – *legitimate* business.

In order to be able to discuss legitimate business in global governance, it is necessary to first elaborate on the analytical discourse on legitimacy of economic institutions (1.3.1) and then to represent the terms of legitimate business in the current Western, OECD-led form of globalisation (1.3.2), before looking at the same terms from the angle of the present global transformation. Global transformation, in turn, is to a large extent driven by the newly arrived global players China and India (1.3.3). If it is justified to argue that i) the ascendancy of China and India opens up a gap in the understanding of ‘good’ or legitimate business conduct; that ii) this gap compromises processes which seek urgently needed consent in global economic affairs; and that iii), this happens at a time when the global crisis has made evident the need for global cooperation in the economic realm – how, then, can this gap be bridged?

### 1.3.1 What is ‘good business’?

This is not a new debate: economic institutions have changed their roles within societies at all times, and particularly so with the extension of markets and through capitalistic transformation of societies since the 15th century. The communist manifesto of 1848 laments the disloyalty of the ‘new industries’ and the dissociation of market actors from the conditions of their homelands: *“All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilised nations, by industries that no longer work up indigenous raw material, but raw material drawn from the*

*remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal inter-dependence of nations.*"<sup>5</sup> Contemporary global capitalism accelerates these dissociative tendencies – as is claimed whenever the ‘discontents of globalisation’ (Stiglitz / Chang 2003) are being discussed. But how then do such dissociated and disloyal social institutions retain social legitimacy – the social ‘license to operate’ – in global capitalism? Is it sufficient for businesses to merely talk of ‘good business’ and to claim to be ‘socially responsible’?

The global ‘good business’ debate started off from the first wave of global transformation (Messner 2007a), when the polarised world after the second world war came to an end following 1989,<sup>6</sup> and the multi-faceted dynamics started that have been covered by the term ‘globalisation’ ever since. The globalisation of economic exchange has, however, not been accompanied by efforts to establish global institutions that would be potent enough to frame and rule the exchange. The departure of OECD economic actors from coordinated market economies and predominantly nation-state-confined spheres of action thus meant that these actors had to operate in deficient and fragmented global institutional environments.

As is developed in chapter 3, the OECD-led ‘Good Business’ or ‘Corporate social responsibility’ (CSR) debate can be understood as a response to this situation. Empirical results suggest that engaging in the CSR debate had become a necessity that businesses with globally dispersed constituencies could not afford to neglect: In a global political economy that is characterised by a fragmented institutional set-up, businesses compensate by engaging in benevolent social policies and by committing to positive norms and values, thereby effectively constructing proto-institutional legitimacy frameworks at the global level (Weikert 2003).<sup>7</sup> Discussing ‘good business’ is a manifestation of the need to establish *legitimate* businesses in a globalised world.

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5 See: [www.marxists.org/archive/marx/works/1848/communist-manifesto/ch01.htm#007](http://www.marxists.org/archive/marx/works/1848/communist-manifesto/ch01.htm#007) (accessed 14 Nov. 2009).

6 In chapter 3 it will be shown, however, that the Anglo-American ‘business & society’ debate is in fact an older one.

7 These findings resulted from a survey conducted by written questionnaires and a series of in-depth qualitative interviews among twelve companies, certifying bodies and NGOs (Weikert 2003, 77 ff.).

In political theory, the legitimacy of social institutions is usually defined with regard to governments in relation to their constituencies. Legitimacy theories (Weber 1968; Sternberger 1968; Scharpf 1999) look into the societal consent and compacts, so governments may exercise rule and decision makers may decide. Thereby, legitimacy emanates from several sources. The challenge when transferring concepts is to extract those determinants from the government-related theories that may likewise steer the dynamics between businesses and their constituencies.

Indiscriminately, any social institution’s legitimacy presupposes that its constituency believes in the rightfulness of its rule (Sternberger 1968). But how is such a belief in the rightfulness of businesses’ actions generated? In the case of governments, it is nurtured by either including the constituencies (by means of representation and participation) in decision-making processes (input legitimacy) or through beneficial output of rule (output legitimacy) that effectively hedges the constituencies’ propensity for opposition (Scharpf 1999). Alluding to this, business legitimacy has to observe processes in which businesses’ constituencies are included in business action or – in addition or alternatively – in which they benefit from its output.

In chapter 3, references to both input and output legitimacy engender adapted concepts for safeguarding business constituencies’ legitimacy belief. Using Max Weber’s concepts of legitimate rule, it can be argued that inclusion of constituencies may happen by reference to shared *role models*, by *appeal of and attraction to companies* (or their brands) and by *rule-based procedures*. Output legitimacy, on the other hand, is engendered by financial and non-financial benefits that businesses provide to constituencies.

### 1.3.2 What is ‘good business’ in the OECD-dominated global economy?

So far, it has been an OECD world’s globalisation (Messner 2007a, 22), driven by an OECD world’s version of capitalism, and with developed countries’ businesses driving the global value chains (Gereffi / Humphrey / Sturgeon 2005, 99). And since the OECD actors have so far been the drivers of globalisation, the OECD actors’ version of ‘good’ (i.e. legitimate) business has enjoyed authority in the global debate.

Thus, the global debate on ‘good business’ has so far displayed an OECD-biased version of legitimate business. And the power structures of the

global political economy so far, implied that companies from OECD countries spread the OECD-biased versions on a global scale. And even if e.g. suppliers outside the OECD did not fully respond to, or circumvent, the imperatives brought about by OECD businesses' CSR policies and norms (laid down in, e.g. codes of conduct), they were nevertheless exposed to the pressure to comply.

One among the most prominent efforts to define standards for 'good business' in the OECD world is the process that resulted in the formulation and re-definition of the "OECD Guidelines for Multinational Enterprises" (OECD 2000). Peter Costello,<sup>8</sup> chairman of the ministerial panel that concluded the revision of the OECD Guidelines in 2000, stated that "*the Guidelines express the shared values of the governments of countries that are the source of most of the world's direct investment flows and home to most multinational enterprises*" (OECD 2000) – industrialised countries that constitute the members of the OECD. In fact, from their inception, the OECD Guidelines were an approach to 'good business', which has been shaped by industrialised countries' values. The following excursion may make this clear:

The creation of the OECD Guidelines for Multinational Enterprises has been a *fait accompli* by the industrialised countries in the face of the lingering attempts on behalf of the United Nations Commission on Transnational Corporations (UNCTC). In the latter, the political North-South divide played an important role. In the UNCTC process, lengthy discussions on a New International Economic Order (NIEO) were conducted, prominently through the United Nations Conference on Trade and Development (UNCTAD) (E22/16).<sup>9</sup> In contrast to this, the OECD Guidelines were drafted in only four months and adopted on 21 June, 1976, by all OECD member states (except Turkey). The Guidelines are one part of the OECD Declaration on International Investment and Multinational Enterprises – a broad political commitment adopted by the OECD Governments to facilitate direct investment among OECD Members. In the liberal politico-economic

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8 Costello was the MP and Treasurer of the Commonwealth of Australia.

9 Here and in the following, direct and indirect quotes from the empirical survey that has been conducted in the frame of this study can be traced with the help of the code of the interview (e.g. E01, A01, P01) and the number of the paragraph in which the quote is found in the primary document (e.g. E01/01, A01/01, P01/01). The interviews are referenced in annex 1.

regimes of the 1980s, however, the Guidelines lost their significance and disappeared from the discussion (E22/29).

In the 1990s, the Guidelines re-appeared on the global agenda alongside the process on the ill-conceived Multilateral Agreement on Investment (MAI): It was planned for the Guidelines to come back as an attachment to the MAI (OECD 1997). The failure of the MAI, due to vehement public protest in 1998, nevertheless created continued public interest in the Guidelines, eventually resulting in a revision process in 2000.

Being a policy distinctly of the industrialised countries, the Guidelines display a bias to Anglo-American values (E06/18; E22). From the very beginning, however, they also carried through views oriented towards Continental-European stakeholders.<sup>10</sup> In accordance with the view of the OECD, and in order to absorb various non-OECD currents and attract non-OECD signatory countries in the past, the Guidelines proved to be of an inclusive nature (E22/59). Ultimately, by virtue of the ‘Heiligendamm Process’ invented by the Group of Eight (largest national economies) (G8) summit in 2007 (in which they are mentioned as an instrument), the OECD Guidelines might well be able to eventually include values of more emerging economies (E22/61).

However, the OECD benchmark for legitimate business is sketched in terms broader than the Guidelines’ in the course of this study. Two ideas promoted in the OECD world thereby form the characteristics that turn the value-neutral, analytical conceptions of business legitimacy of the previous chapter into *OECD-typical ones*: the idea of ‘sustainable development’ and the notion of ‘stakeholders’.

First, following the publication of the Brundtland Commission’s report (“Report of the World Commission on Environment and Development: Our Common Future”), the idea of *sustainability* and *sustainable development* became the dominant role model (*Leitbild*) for the wider debate in the OECD, and hence for the OECD’s good business discussion. This role model implies that the mere provision of economic output will no longer be enough to retain the businesses’ social legitimacy. Increasingly, socially and environmentally beneficial output is expected, as well.

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10 The Guidelines are among the first official government documents to mention and endorse the stakeholder concept.

Second and equally articulate in the OECD debate, the idea that important groups *besides* the ones with immediate legal relation to the businesses hold significant justified claims on the businesses' affairs has also gained ground. Other "stakeholders" (Freeman 1984, see chapter 3.1.1.4) besides the owners and the regulators with indirect, non-formalised relations to businesses enter the stage. Boycotts and campaigns<sup>11</sup> have made it clear to the OECD businesses that furthermore important other stakeholder groups such as civil society actors have to be accounted for. In this vein, a good image among consumer groups, or a good reputation among other relevant social groups, has to be built up and maintained on a global scale. Meanwhile, including an *adequately broad range* of social groups is seen as a 'business case' to neglect which can be harmful to the businesses' persistence. However, as a result of increasing shareholder orientation in the OECD world (Höpner 2001), government actors receded in priority of businesses, while the shareholders have gained in relative terms.

The OECD version of 'good business' which is contained in the OECD Guidelines – and which can be contextualised in the broader notions of sustainable development and stakeholders – will serve as a benchmark in the course of this study. The characteristics of this OECD benchmark are portrayed in more detail in chapter 3.1.3.

### 1.3.3 What is 'good business' in the changing global economy?

A scenario of contemporary change can now be held against the OECD blueprint of 'good business': while the first wave of global transformation brought with it an advanced social division of labor between OECD and non-OECD actors, a forthcoming second wave results in a situation in which non-OECD actors assume roles as new drivers of global change.

*"The term 'Driver' signifies the distinctive and significant impact which [...] economies are likely to have on the global economy, arising not just from their size, but also from their distinctive public and private actors. The economic processes they engender are likely to radically transform regional and global economic, political and social interactions and to have a major impact on the environment."* (Kaplinsky / Messner 2008, 197)

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11 Such as in the Shell Brent Spar case in the 1990s.

This characterisation of a 'driver' applied to different nations in different times in history. What is of interest here, however, is the fact that the actor that drove global change ever since it entered the Second World War, the USA, is increasingly seen to be the old, outgoing driver. The OECD, once established to reconstruct the European economies after the Second World War, is the club of industrialised, rich countries ('First World') which were allied to the USA not only in economic, but equally so in political and cultural terms. The East-West divide firmly forged this group together by frequent interaction among its members and by distinction against the members of the Warsaw Pact ('Second World') and the poor countries ('Third World'). By and large, the 'OECD World' under US-American leadership *drove* the economic and industrial development of the Western world before the fall of the Berlin Wall, and ultimately the entire world after that. Accordingly, the constituencies granting legitimacy to global business activities were to be found within OECD world.

Nowadays, it is widely assumed that this constellation is about to change. As previous constellations, in which one politico-economic centre dominates the periphery in the "world system" (Wallerstein 1976) have vanished – Portugal and Spain after the early European expansion, later The Netherlands and the UK – the current one may as well. Particularly the period since 1989, which saw a unilateral exertion of economic, political, military as well as soft power (Nye 1990; 2006; see chapter 3.2.2.2) by the United States, is currently seen as a transition period leading into the dawning of an 'Asian century'.

The significance of the rise of China and India has been discussed in various arenas, approximately since the terrorist attacks of 2001 in the US, a selection of which will briefly be introduced in the following. This short overview mentions the idea of the BRICs, domestic notions of a 'Chinese Renaissance' and a 'Shining India', the debate of power shifts compromising US hegemony, the 'Beijing Consensus' and finally the literature on 'Asian Drivers' in global governance thinking:

In 2001, Goldman Sachs' chief economist Jim O'Neill predicted that by the mid of the century, Brazil, Russia, India and China would have overtaken the six largest western economies in terms of size. The 'BRIC' countries would share a potential for rapid growth because of their large populations, yet underdeveloped economies and governments that appeared willing to embrace market economic elements and globalisation. "*What 9/11 told me,*



*was that there was no way globalisation was going to be Americanisation in the future – nor should it be*”, O’Neill recalls. “*In order for globalisation to advance, it had to be accepted by more people*” (Tett 2010, 1). Therefore, more attention had to be drawn to the non-western economies with large populations and how they would wield their increasing power in the future. With his BRICs concept, O’Neill and his followers (O’Neill 2001; Wilson / Purushothaman 2003; O’Neill et al. 2005; Aguiar et al. 2006) not only re-drew the investors’ cognitive map of the world, but also influenced political thinking. He arrived at political conclusions in 2001 that have proven to be very accurate only recently, during the Group of 20 (largest national economies and the EU) (G20’s) efforts to manage the 2008/09 financial crisis: “*it seems quite clear that the current G7 needs to be ‘upgraded’ and room made for the BRICs in order to allow more effective global policy-making*” (O’Neill 2001, 10).

At the same time, different sets of discussions formed inside China and India: “*The idea of China’s ‘peaceful rise’ (heping jueqi) to international prominence as a responsible, peaceable, and non-threatening global power was introduced by Zheng Bijian [a respected intellectual, affiliate of President Hu Jintao and chairman of the China Reform Forum; jw] in November 2003*” (Suettinger 2004, 1). The notion encompassed lessons from ascendancies of great powers in history, concluding that social stability and peaceful foreign relations were crucial (The Economist, 31 March, 2007, Special Report, 4). Following Zheng’s introduction of it (Zheng 2002; Zheng 2004), the state leadership used the formulation ‘peaceful rise’ in policy papers and speeches (Hu 2004), but later found it to be too assertive. Lee Kuan Yew, Singapore’s former prime minister remembers to have counseled on this issue: “*‘Peaceful rise’ is a contradiction in terms. I told China’s leaders that. I said: ‘Why not call it a renaissance, a return to a golden age when poetry, painting, clothes, music and drama flourished?’*” (The Economist, 31 March, 2007, Special Report, 4). In a similar fashion, Indian politicians publicised the slogan ‘Shining India’, referring to an overall economic optimism after bountyful rains in 2003 and the success of the Indian IT boom. Invented by a Public Relations (PR) firm for the then ruling BJP’s 2003 election campaign, the slogan soon rose to international prominence. The internal debates in both countries reflected the optimistic self-perceptions at the beginning of the century, when the economic growth prospects began to be noticeable to a broader public and were epitomised by the manufacturing boom in China and the IT service boom in India. Both

debates, however, were later withdrawn in parts, or put into more moderate terminology.

Again in 2003, a network of mainly US-based researchers thought of the ongoing power shifts broadly in terms of its implications for the US hegemony. During a conference at the George Washington University in December on 'China and Asia: Towards a New Regional Order', researchers from (among others) the Brookings Institution, the Center for Strategic and International Studies, Johns Hopkins University, Georgetown University and the Carnegie Endowment for International Peace discussed the parameters of China's emergence. "*We went into the conference to explore the hypothesis that China was becoming the major power in Asia and that the regional system was again becoming Sinocentric, as it was centuries ago*" (Shambaugh 2005, xi) – thereby rivaling established spheres of US interest.<sup>12</sup>

The impact of China's rise on other developing countries is in the focus of the debate on a so-called 'Beijing consensus' (Ramo 2005; Dirlík 2006). In 2004, Joshua Ramo stated the idea that China's development path would be largely at odds with the hitherto mainstream western prescriptions summed up in the 'Washington consensus' – a set of liberal economic and policy recommendations promoted in the developing world by the Bretton Woods institutions and mostly US-based academia since the 1980s. Accelerated by the financial and economic crisis, which has been perceived as 'Western', "*many Chinese now feel they have little to learn from the rich world. On the contrary, a 'Beijing consensus' has been gaining ground, extolling the virtues of decisive authoritarianism over shilly-shallying democratic debate*" (The Economist, 4 February, 2010, 9). What intrigued Ramo when inventing the term 'Beijing consensus', however, was the fact that accompanied by its economic rise, China is gaining the 'soft' power that politico-economic systems accumulate when considered worth copying by others: "*China is marking a path for other nations around the world who are trying to figure out not simply how to develop their countries, but also how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful center of gravity*" (Ramo 2004, 3). It has to be stated, however, that rather than being a stringent set of policies combining

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12 A most recent indication of this is the renewed row between the US and China over US weapon sales to Taiwan in January 2010.

authoritarian rule with a guided market economy, the ‘Beijing consensus’ serves as a gathering place for a wide range of discussants who are opposed to hegemonic US influence (Dirlik 2006, 2).

The stream of the debate that is most pertinent for the purposes of this study is the branch of global governance literature in political science that centres around the rise of the “*Asian Drivers of Global Change*” (Schmitz 2005; Schmitz 2006; Humphrey / Messner 2006b; Kaplinsky 2006; Messner 2007a; Schmitz / Messner 2008; Messner / Kaplinsky 2008). This stream broadly sees the largest Asian economies India and China as agents that change the rules of the game in the global political economy (Kaplinsky / Messner 2008, 3). These changes are not moderate and incremental, but materialise as tectonic shifts (Humphrey / Messner 2006b, 1; Kaplinsky / Messner 2008, 199; Wolff 2006, 5), as a result of which the current power constellation in the global political economy might dissolve into unstable multi-polar formations (Humphrey / Messner 2006a; Fues et al. 2006; Fues 2007).

In order to provide the theoretical framework of this study, the literature on the Asian Drivers of Global Change within the broader discourse on global governance will be elaborated on in the following (see chapter 3).

The “*Great Game in Asia*” (The Economist, 31 March, 2007, 12) currently clearly has its centre in China. Among the Fortune Global 500 companies, only about 40 are of Chinese origin. But 450 maintain production lines or subsidiaries in China. It is the country of origin of 75 per cent of all toys, two thirds of all photocopiers, microwave ovens and shoes, 55 per cent of DVDs, over half of all digital cameras and 30 per cent of all personal computers in the world (Time, 28 September, 2009, 20).

*“The favourite reading at the moment among a younger, more cosmopolitan generation of Chinese diplomats is ‘Power Shift’ [Shambaugh 2005, see above; jw] – a collection of essays by mainly American-based academics. Its premise is that the tectonic plates that have defined Asia for the past half century are moving, and that China is the chief agent of change as it resumes its historic role as Asia’s central actor”* (The Economist, 31 March, 2007, Special Report, 4)

The impact of India’s rise, while it may not come to full swing in the short-term, is expected to be no less impressive in the medium-term view. This cataclysmic global transformation is examined in detail in the theoretical framework of this study (chapter 3.2).

It is argued here and in the following that the Asian Drivers China and India give rise to a new set of actors who have not taken part in this discussion before: the Asian *Business Drivers*. While the characterisation of this new, distinct class of actors will be developed in chapter 4, some examples demonstrate the increasing weight of Asian Business Drivers in current global governance.

Both China and India are home to “Billions of Entrepreneurs” who are “re-shaping their futures and yours” (book title, Khanna 2008). A few large businesses, however, stand out to indicate the rise of multinational enterprises from emerging economies and from the Asian Drivers in particular.

Suzlon, which began as an Indian textile manufacturer is now among the world's five leading producers of wind turbines (The Economist, 12 January, 2008, 10). Among others, Suzlon acquired Hansen of Belgium and the German wind-energy company Repower. Under the auspices of Suzlon, Hansen had a very successful initial public offering (IPO) at the London Stock Exchange in late 2007.

Tata, a large conglomerate from India, already generates about one third of its revenues overseas. With Tetley Tea of Britain, the Tata Group made the first large foreign acquisition by an Indian company in 2000. In 2006, the Anglo-Dutch steelmaker Corus accepted a US\$ 7.6 billion takeover bid from Tata Steel. This was the largest Indian takeover of a foreign company so far, and created the world's fifth-largest steel group (The Economist, 14 October, 2006, 67 f.). Today, the Tata Group comprises 98 operating companies in seven business sectors. Through Tata Motors, the group has bought the British premium brand companies Jaguar and Rover of Ford Motors (Chakraborty 2008). “*As a symbol of a shift in economic power, this is hard to match*” (The Economist, 12 January, 2008, 10).

Many other Indian companies have followed Tata's expansion path: By its spectacular acquisition of Arcelor of Belgium, Mittal became the world's number one steel company, employing 310,000 in more than 60 countries; Wipro acquired technology companies in Portugal, Finland and the US; Ranbaxy, a producer of generic drugs bought Ethimed of Belgium and Mundogen of Spain. Bharat Forge from Pune bought a total of six companies from UK, Germany, Sweden and China.

These Indian companies attract attention not only because of mergers and acquisition (M&A) strategies, but also because of innovation and perform-

ance. Tata Steel is known as the lowest cost producer in the world (The Economist, 14 October, 2006, 67 f.) and Tata Motors has just launched the 21st century version of a ‘Volkswagen’, the ‘one lakh car’ Nano, which can be purchased in India at 100,000 rupees (1 lakh meaning 100,000 in India).

The rise of Chinese Business Drivers is arguably even more impressive. In terms of market value, five Chinese companies have recently made it into the ranking of the world’s ten largest companies: PetroChina, China Mobile, the Industrial and Commercial Bank of China, China Petroleum and China Life Insurance (Süddeutsche Zeitung, 6 November, 2007, 1; SPIEGEL Online, 6 January, 2008). The largest, PetroChina, was temporarily at the top of this list after its IPO increased the value of its equity by 163 per cent on the first day of trading. It took PetroChina one day in early November 2007 to overtake the long-standing largest Western company so far, Exxon Mobile.

Again in terms of market value (although not in terms of total assets), the world’s three largest banks are the Industrial and Commercial Bank of China (ICBC), the China Construction Bank (CCB) and Bank of China (BoC) (Süddeutsche Zeitung, 6 November, 2007, 33).

M&A policies of individual Chinese Business Drivers are less pronounced compared to Indian ones. One of the largest acquisitions of a Chinese company was the takeover of PetroKazakhstan by the China National Petroleum Corporation (CNPC) for US\$ 4.2 billion in 2005. Yet, another deal that attracted much attention was the acquisition of IBM’s ailing personal computer division for US\$ 1.25 billion by Lenovo in 2004. However, in order to gain access to technology, raw materials and skills without taking full control of the companies and making much noise, firms and government-controlled funds often opt for minority stakes.<sup>13</sup>

A good example of a market-changer is the (Taiwanese-owned) electronics manufacturer Foxconn. Although Foxconn (the international trade name for Honhai Precision Industry Company Ltd.) is not well-known among consumers, it is not only the largest, but also the fastest-growing manufacturing

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13 The Economist, 3 November, 2007, 74; see also The Economist, 15 August, 2009: “While trade has boomed, Chinese investment in Latin America has hitherto amounted to less than meets the eye. That is in contrast to India, whose trade with the region remains modest, but whose companies have begun to make significant investments in software, pharmaceuticals, business software and natural resources.”

services provider worldwide, producing, for Dell, HP, Intel, Apple Computers, Sony, Microsoft and Motorola among others. It is believed to turn over US\$ 70 billion employing more than 700,000 staff.<sup>14</sup> Whereas only years before, the Silicon Valley spin-off Flextronics (headquartered in Singapore) clearly dominated the market for Original Equipment Manufacturing (OEM) in the electronics sector, Foxconn grew exponentially since 1996, close to 50 per cent year-on-year according to Compound Annual Growth Rate (CAGR) over a period of ten years.<sup>15</sup> With Foxconn, a new giant at the supply-side overhauls the traditional governance patterns in buyer-driven global value chains (Gereffi / Korzeniewicz 1994; Gereffi / Humphrey / Sturgeon 2005; Stamm et al. 2006). Foxconn "changes the market very much. Even when a large company comes to them, the conversation about CSR must be a very different one than with the little 3,000-worker factory turning over maybe US\$ 500 million, or the smaller ones turning over not even one million US\$. This is a very different kind of conversation because now you got a very big operation which can essentially say: well, we're doing it our way!" (E04/15)

Chapter 4 will systematically resume the observation on the particular features of Asian Business Drivers introduced by these illustrative examples. When delineating the shape of the new class of actors in global governance, important variables include M&A strategies, competitiveness, innovativeness, historic development and the allocation of bargaining power in the businesses' value chains.

Taking together the dynamics in the political economies of the Asian Drivers, and therein the activism of the Asian Business Drivers, a vision of new 'varieties of capitalisms' (Streeck 1992; Soskice 1990; Soskice 1999; Hall / Soskice 2001; Hall / Gingerich 2004) rises before the observer: can an Asian Driver's variety of legitimising business be identified against the ideal type of the OECD benchmark? This is the first guiding question in this study.

### 1.3.4 Closing the gap

The second guiding question in this study is: How does global change impact the 'good business' discussion?

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14 Personal conversations with researchers at CSR Asia, Hong Kong and Ren Min University, Beijing.

15 See: <http://www.foxconn.com/PullulateCourse.html> (accessed 27 Nov. 2009).

Global change in the 19th century, as much as the one of recent decades, has been a manifest advancement of the social division of labour. The same dissociative tendencies in the changing industrial societies that Karl Marx and Friedrich Engels lamented in the Communist Manifesto, one generation later were observed by the French sociologist Émile Durkheim from the angle of morale and markets. In his view, rule-less, so-called ‘anomic’ situations are resulting from the advancements in the social division of labor (Durkheim 1988).

The absence of rule plays a role, also in the contemporary advances in the global social division of labour. When looking at the globalised division of labour, i) in terms of value chains reaching from the OECD world into the non-OECD world; ii) in terms of value chains reaching from the OECD world into the Asian Drivers’ world; and iii) thereby insufficiently framed by global institutions – various important concerns arise: Is there a potential *anomic* gap between concepts of legitimate business? Does this gap widen with shifts in bargaining power that favour the Asian Drivers countries? What is the case for value chains governed from within the Asian Drivers (reaching into developing countries, but sometimes also into OECD countries) as a result of these changes? How is ‘good’, i.e. legitimate, businesses defined as the global division of labour revolutionises with the advent of the Asian Drivers?

As will be seen, Durkheim’s ideas on markets and morale suggest that in the course of ‘habitualised’ exchange, anomic gaps in the business legitimacy governance between the OECD world and the Asian Drivers may be closed (see chapter 3). Closing these gaps, however, cannot be conceived when remaining focused – in science, business and policy-making – on the varieties of defining business of the OECD world, while neglecting those of the Asian Drivers and largely ignoring the Asian Drivers’ domestic discussions on ‘good business’.

## 1.4 Relevance of the research

The following passages briefly outline the reasons why it has been deemed worthwhile to embark on this piece of research. It is held that the research is both innovative and timely for political science, the business world and for policy-making, particularly in international and development cooperation.

### 1.4.1 Innovative stance in corporate social responsibility research

Much so as with the inflation of books on China (see 1.2.3), there has been a wave of new thinking on the wider issue of Corporate Social Responsibility (CSR) in the past ten years. Thereby, the increasingly globalised CSR discussion coincided with the recent decades’ globalisation of the world economy. A whole industry emerged from this: Across a range of institutions spanning from specialised departments within companies, via public relations and consulting firms, to international organisations and official development cooperation agencies, not insignificant amounts of money are being spent and earned in this recently-developed CSR industry (Corporate Register 2008). In the course of this development, the actors in this industry invent more and more concepts in order to mark themselves out against their peers. Unfortunately, multiple forms and concepts of CSR, such as Corporate Citizenship (CC), Corporate Responsibility (CR), Corporate Social and Environmental Responsibility (CSER), Organisational Responsibility (OR), Sustainable Competitiveness (SC), Responsible Business Conduct (RBC), etc. rarely bring additional clarity on the substantial side. Contrarily, the sheer volume of existing concepts sometimes makes a highly topical issue – the role of private business actors and the emergence of private governance in the global governance architecture – more fuzzy and less seizable for scientific revision and conceptual progress.

In order to avoid adding another concept to the pile, this study will not claim another niche in the CSR discourse. In fact, it will try to avoid using the above catchwords. As a proxy for this entire discussion, this study will instead speak of ‘good business’. This term is borrowed from the expression ‘good business conduct’ in the preface of the OECD Guidelines for Multinational Enterprises (OECD 2000, 16)<sup>16</sup> and encompasses – in the broadest possible sense – the positive societal connotations inherent to the various concepts.

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16 See also The Economist’s cover page headline “The good company” (The Economist, 20 January, 2005).



As ‘good’ is not a category of the positive sciences, in its analytical parts, this study will translate ‘good’ into ‘legitimate’<sup>17</sup>, whereby the legitimacy of businesses is each time granted by the respective business constituencies: the stakeholders (chapter 3.1.1.4). This way, corporate social responsibility becomes accessible to political science: It is furthermore possible to frame CSR in the wider agenda of global governance research which, among others, tackles questions of the role and the legitimacy of private business actors in global governance.

## 1.4.2 Timeliness

In the midst of the global discussion on ‘good business’ comes what scholars have coined a second wave of global transformation characterised by the rise of the Asian Drivers of Global Change (Messner 2007a, 22). This wave brings about a thorough cataclysm of commonplace notions of globalisation as a western invention largely benefiting western actors. At the same time, this wave builds in size very quickly, and crashes over the heads of many who have not expected to discuss China and India in terms other than of development policy *this* soon. Indicators that serve as testimonies to the contemporary significant rise of the Asian Drivers can be generated from the economic (Gross Domestic Product [GDP] growth rates, currency exchange rates, commodity prices), political (debates in World Trade Organization [WTO], UN Security Council or United Nations Commission on Sustainable Development [UNCSD] proceedings; the Post-Kyoto climate policy regime) or environmental realms (ecological footprint, energy and resource consumption, CO<sub>2</sub> emissions etc).

The recent economic and financial crises further accelerate these trends. As the world emerges from a major recession, a new economic order is forming and many discussants hold that *“over the next decade, we are going to hit a tipping point where the influence of the emerging markets in economic, financial and geopolitical issues will be important, if not dominant”* (Tan 2010, A13).<sup>18</sup>

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17 Whenever the term is used in the course of this study, it is put in inverted commas in order to indicate that this is a proxy term in the sense outlined here.

18 Tony Tan Keng Yam is deputy chairman and executive director of the Government of Singapore Investment Corporation.

### 1.4.3 Relevance for political sciences

This study suggests extending the research agenda of the discourse on global governance in political science. It assumes, first, the perspective of a plurality of governance actors within which the relative importance of non-state actors, most prominently private business actors, increases; and second, the perspective of China and India as new drivers of global change. It is suggested that a combination of the two perspectives is rewarding, as it opens up a new field of research on ‘Asian *Business Drivers of Global Change*’.

As a further accomplishment, this study translates the sometimes diffuse public discussions on corporate social responsibility into the terminologies of political science, in order to make it accessible for academic research: in the rapidly changing global political economy ‘good business’ is *legitimate business*.

For methodological reasons, the empirical research does not aim at representative results or universal generalisations. Rather, this study delivers balanced empirical evidence that is instructed by a systematic examination of the global governance discussion. The accomplishment of this study will thus be the logical structuring of a new but highly topical field of research.

### 1.4.4 Relevance for business

The stance this study takes vis-à-vis the business world is, accordingly, that observing the legitimisation patterns of Asian Business Drivers is a timely strategic decision.

It can be expected that the billboards of the world’s business hot-spots will display Asian Business Drivers’ brand names in the future. In some ways, this situation can be compared to the Japanese economic ascendancy and the subsequent rise of other Asian economies. However, China and India do not merely join the queue of 20th century Asian economic rise behind Japan, the ‘Asian Tigers’ South Korea, Taiwan, Singapore and Hong Kong, and the four economies that are sometimes dubbed the ‘New Asian Tigers’ (Thailand, Malaysia, Indonesia, Vietnam). Here, size clearly matters: While the earlier ascending countries succeeded through integrating small economies (relative to the rest of the world market) into a global mainstream, integrating the economic activities of more than 2 billion people

into the rest of a global economy of 4 billion in relatively short time changes the mainstream itself comprehensively.

Certainly, already the earlier Asian ascending nations, and notably Japan, were posing challenges to the established world markets of their times by adding their particular features to the mainstream conduct of western political economies. For instance, the Japanese car-makers did not only match the sales of the then western global automotive industry; the competitiveness of the Japanese companies ultimately changed whole production technologies and management practices through the introduction of elements of systemic rationalisation comprised in ‘Toyotism’ (Kaizen, Kanban systems etc). Thereby, these companies had a reach far beyond the car industry.

But while the ‘Japanese threat’ has lost its ‘horror’ since the stagnation of the Japanese economy of the 1990s, China, as a matter of dynamic combined with size, unabatedly poses the risk of fast and sharp economic shocks to the rest of the global economy. *“China could do what Japan did, as a very fast follower, but China could do it bigger and better and for a longer period of time”* (Bradsher 2004).

Today, it is part of the global economy’s mainstream to see large billboards of Japanese multinationals such as Sony, Mitsubishi, Panasonic (Matsushita) or the Korean companies Sanyo, Hyundai and Samsung<sup>19</sup> in any large business metropolis. Conversely, the observers’ eyes are not yet quite as used to Chinese brand names like Li Ning, Huawei, Wahaha or the Indian brands Bajaj Auto, Bharat Forge and Rambaxy.<sup>20</sup>

In 2010, it is very plain to observe that China and India will change the world economy and that Chinese and Indian companies will fill the billboards, potentially introducing new features to mainstream management practices and impacting on the way, how business as such is being defined.

Business (outside China and India) therefore should take a close look: If definitions of ‘good business’ can be expected to change substantively, their investments in, and strategies towards, their intangible business assets (brand value, public image), which have accrued during the past decades

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19 As an additional indication, interested readers may want to try and type these company names into a text editor and observe that the spell-check function will offer corrections for misspelled names from its Thesaurus.

20 Interested readers may try the same spell-checker test for these brand names, as well.

through PR activities, are at risk. To a greater extent than in the past, the Asian Driver's versions of 'good business' will claim space in the global discussions.

#### 1.4.5 Relevance for policy makers in international and development cooperation

Present-day international and development cooperation is 'global structural politics' (SPD / Bündnis 90/Die Grünen 1998, 48), which has to live up to the challenges posed by the waves of global change. It thereby needs to pay similar attention to the, sometimes diverging, agendas. The main agendas are the Millennium Declaration of the UN (MDG framework), the international security agenda and the Rio-Agenda entailed by the 'Rio Conference' on environment and development in 1992 (Messner 2007b, 408). For each of those major goals catalogues for global structural politics, the private sector plays an increasingly important role. Businesses contribute to the achievement of the Millennium Development Goals (MDGs) in various ways and forms (InWEnt / World Bank Institute 2006; 2007; 2008); security politics have to account for the 'privatisation of war', which means that companies are directly and indirectly engaged in armed conflicts; and not least, private businesses are among the largest emitters of carbon dioxide, a main trigger of climate change as the most threatening among the world problems with which the discussions of the Rio-Process stired up the global public.

Consequently, bi-lateral and multi-lateral cooperation agencies have begun to incorporate the business sector into their strategies: by pursuing partnership approaches (Public Private Partnership), by establishing learning platforms such as the UN Global Compact or by embracing corporate social responsibility dynamics in the implementation of their programmes (Weikert / Petkoski / Ramalho 2008). In this way, two actor groups that in many cases eyed each other with suspicion before moved from conflict to collaboration (Altenburg 2005; Altenburg / Weikert 2008) in order to serve common interests.

However, the next challenge has not yet been tackled, even at a strategic level: the development impact of businesses from the Asian Drivers countries. The practices of Chinese businesses in African countries have thrown up a lot of dust in the discussion on international development cooperation.

The majority of discussants point to the incompatibility of the Chinese interventions with good donor standards and to the threat that achievements in development could be endangered by exploitative practices of Chinese companies (Altenburg / Weikert 2006; Chahoud 2007; Dieterich 2007; Gaye 2006; Pehnelt 2007; Wolff 2006; Süddeutsche Zeitung, 6 November, 2007 and many more). Less often it is stated that African recipients of goods and services delivered by Chinese businesses are often highly satisfied with the quality, cost-effectiveness, timely delivery (Altenburg / Weikert 2006, 27), and with the fact that the Chinese treat them as partners rather than as recipients of aid (Paolo / Reisen 2009). Arguably, multinational corporations from developing countries, such as the Asian Business Drivers navigate more steadily in the markets at the ‘base of the economic pyramid’ (Hart / Prahalad 2002) than their OECD counterparts. An OECD donor-initiated partnership project with a Chinese company, however, is yet unheard of.

Instead, many CSR-related programmes in international cooperation still maintain the perspective of OECD world-led global value chains. However, the urgent need to change this perspective is evoked by not only M&A strategies of the Asian Business Drivers, but also by the increasing leverage of public and private investment funds from the Asian Drivers.

On the side of state-led investments, the debate on Sovereign Wealth Funds (SWF) in the OECD world has raised questions on security matters, for instance concerning investments by emerging economies in western military or other sensitive industries (Bechmann / Jansen 2007; Die Welt, 22 February, 2007; The Economist, 12 January, 2008, 11; The Economist, 19 January, 2008, 11). For instance, the China Investment Corporation established in 2007 is believed to manage a US\$ 200 billion share of the immense Chinese foreign exchange reserves.

On the side of business-led investments, Asian Business Drivers currently discuss the opportunities provided by the crisis of the global financial market. For instance, the Chinese Ping An insurance group has recently been cleared by its shareholders to raise US\$ 17 billion for a plan to acquire overseas assets – at a time when many western companies have lost value in the wake of the global financial crisis. *“International giants are all good at seizing opportunities when they come their way, and if Ping An has to be an international player, it has to do the same”* says Ma Mingzhe, the chairman of the group (Hu 2008, 1 “Shall we shop?”).

This study wants to help fortify mutual understanding of the policies and concepts that accompany economic activity from either side, the OECD world and the Asian Drivers world. International and development cooperation, understood as global structural politics, can play an important role as a global broker. Before it can assume this role, however, important strategic moves remain to be accomplished. This research wants to feed into and support these urgently needed moves. If morale and ethics are conveyed by economic exchange in the course of the globalised social division of labor (Durkheim 1988), then the fact has to be accounted for, that morale and ethics are no longer conveyed unidirectional since the second wave of global transformation (Messner 2007a) has come into effect. Instead, the Asian Drivers' views take more room and now affect value chains that are lead by Asian Business Drivers, including those that reach into OECD countries.

## 1.5 Aims of this study

Unfortunately, in the year of the Beijing Olympics 2008, there were few balanced accounts of the current rise of China to be found in the public discourse. The broader western audience has been provided with rather ungracious media reports, provoking sometimes ecrimonious reactions in China (which can for instance be followed in internet blogs).

But even before the debate on the Olympics and the Tibet crisis took off in March 2008, the challenge that the rise of China imposes on the so far OECD-led world expressed itself in rather unbalanced ways, ranging from exaggerated hymns on the Chinese economic miracle on one side to lopsided instances of "*China-Bashing*" (The Economist, 17 May, 2007; Berger 2008) on the other. Currently, the pendulum clearly swings back to the side of pessimistic exaggerations.

From a western viewpoint, the fearful connotations of the public debate are understandable: Global stakeholders, even though they are becoming increasingly interdependent, are nevertheless considerably fragmented. For important groups, the nation state frame of action remains the decisive one. For instance the welfare development of skilled technicians in the OECD world has stagnated for about 20 years, while their counterparts in the 'emerging world' have experienced considerable increases in welfare. And even if the overall net gains of globalisation are deemed impressive, it is not a win-win situation for all individual groups.

Moreover, historical accounts conclusively state that the Asian economic success is not a new phenomenon, but rather the overdue re-balancing of the global economy, which has been characterised by superior Asian economic power up until high-imperialism. “[U]ntil 1800, Asia was vastly ahead of Europe and all the data that we have show that” (Frank / Landes 1998). Fears of sliding towards the losing-end of globalisation are therefore rampant. Günther Wallraff, a popular German investigative journalist, for instance, wakes these fears with regard to social standards at work:

*“Many products we buy are not produced in Germany anymore but in China, India or Romania, where labourers earn less, where they are less well insured, or not at all, and less well protected against hazards. How does a German company react to the cost pressure? Can it be that conditions at work from the so-called Third World have already found entry to our ‘brave new working world’?”* (Wallraff 2008, 13; translation jw)

However, acknowledging the graveness of the impacts of global transition must all the more imply aiming at fair arbitration of interest on equal footing with the newly emerging players, in order to avoid the dangerous constellation that has been termed an “*unstable multipolarity*” of newly emerging and established political and economic power poles (Humphrey / Messner 2006; Fues 2007; Messner 2007a).

*“The question is whether the EU and the US will be able to gradually integrate the two new powers [China and India; jw] into a system of effective multilateralism, or whether this multi-polarity will take shape against the backdrop of an unbridled competition for power that could lead to new instabilities, conflicts, and persistent turbulences, binding the forces urgently needed to contain the dark sides of globalisation (such as poverty, environmental degradation, state failure)”* (Humphrey / Messner 2006b, 2)

An effective multilateralism would also require “*reciprocal construction of benign images [which; jw] enable the rising and the (relatively) declining powers to view each other as non-threatening actors*” (Gu / Humphrey / Messner 2007, 21). The exchange of benign images, however, is even more needed in the economic realm, in which the potential of conflicts of interest between fragmented global stakeholders is particularly high. To moderate and balance the competition of action-guiding role models for business legitimisation is an important part of this exercise.

It is in this vein that this study tackles the global business legitimacy governance as an issue urgently to be addressed. This research wants to elaborate on this aspect of the ascendancy of the Asian Drivers in a balanced manner and thus contribute to the mutual understanding between the old and the new drivers of change. Arguably, such understanding is a prerequisite for fair arbitration of interest in a world in comprehensive transformation.

## 1.6 Methods applied

Rather than generic answers, the research on business legitimacy requires causal interpretations in case-specific lines of argumentation. The aims of this study are therefore pursued within an explorative, qualitative set-up towards the end of preparing for further scrutiny a highly topical but rather untilled field of research. It is a venture into the empirically unknown: the literature on the 'Asian Drivers of Global Change' so far argues solely from a theoretical vantage point.

This study introduces to the discussion a new empirical category (A), which comprises the Asian Drivers-type of good (legitimate) business. The OECD world's type of good (legitimate) business (O) is serving as a benchmark for the development of (A). Assumptions of variance between (A) and (O), and furthermore of an impact relation of (A) on (O), structure this exploration.

The assumptions will be approached with the help of qualitative content analyses, qualitative interviews and process analyses, providing adequate levels of flexibility for this venture into the unknown. The flexibility allows reviewing own assumptions in the course of the empirical study, for example, whenever they appear to be lopsided or overly simplistic.

Oftentimes, the review and further elaboration of the initial assumptions within a qualitative set-up is rewarding. In this case, an abstraction from the concrete cases derives determining factors for variation between (A) and (O), and its opposite, alignment of (A) and (O). If synthesising these factors with the literature that assumes increasing bargaining power for the Asian Drivers, the modes of impact of the newly arrived actors in the debate can be clearly spelled out.

72 qualitative interviews among relevant stakeholders have been conducted as part of this study between 2006 and 2008. They form the foundation of this study (s. chapter 5.1 and annex 1). The interviews have been conducted within three different empirical modules. They have been complemented



and cross-validated by content analyses and processed according to a research style informed by ‘Grounded Theory’ (see chapter 2.4).

The research design is introduced in detail in the next chapter.

## **2 Empirical research on ‘good business’ in the global economy**

This study aims at structuring a new and highly topical field of research in political science: first theoretically, by framing the research object within the pertinent streams in the literature; and second empirically, by identifying and applying the appropriate analytical categories by means of a survey. Whereas the former is accomplished in chapter 3 (theoretical framework), this chapter will lay the groundwork for conducting the empirical research. Therefore the following will outline the methodology for elaborating on the research questions posed in chapter 1.

To this end, the research design is outlined in chapter 2.1. The subject calls for a qualitative research design. Therefore, important characteristics of the qualitative research programme are portrayed in chapter 2.2. The subsequent chapters elaborate on how the methodological requirements are put into practice in the design of the proposed survey modules (chapter 2.3) and in the processes of data analysis (chapter 2.4). Chapter 2.5 sums up the findings of this chapter.

### **2.1 Research design**

This research has both an explorative and theory-generating design, however qualitative discourse-analytic, comparative and quasi hypothesis-testing modules structure it further. It aims at meaningful statements on the future global debate on ‘good business’ by observing discourses and a small-N sample of businesses from a comparative perspective, and by tracing relevant processes from a dynamic perspective. From the synopsis of both perspectives, the impact exerted by the Asian Drivers of Global Change on the global discussion on ‘good business’ is inferred. The results aim at supporting both the anticipation and understanding of future concepts of legitimate business in a rapidly transforming world.

The OECD guidelines therefore serve as a benchmark for an articulate OECD type of good (legitimate) business. This benchmark is being complemented by additional OECD-based standards such as Social Accountability 8000 (SA8000), Social Accountability International (SAI) (SAI 2008) or the Global Reporting Initiative’s G3 Guidelines (GRI 2006), and views of OECD-based experts. The gap between empirical OECD businesses’ attitudes and practices from this OECD benchmark is typically expected to be small.

In order to concisely express the assumed mechanisms and dynamics at work, the explanation of the research design borrows some terminology from hypotheses testing methods (‘independent variable’, ‘dependent variable’). It is important to note, however, that the study is designed within a strictly qualitative set-up and does not aim at generalisable statements on correlations beyond the study’s scope.

In this *quasi hypothesis-testing* design, the future development of the OECD-type notion of ‘good business’ – as proxy for the current global scenario overwhelmingly commanded by OECD stakeholders – serves as the dependent variable. An independent variable that is triggered by the emergence of the Asian Drivers is expected to impact on this dependent variable.<sup>21</sup>

### 2.1.1 Basic assumption and limitation

For the purpose of developing this research design, the OECD-type of ‘good business’ is given as (O). The Asian Drivers-type of ‘good business’, on the other hand, is given as (A).

The research design builds up around the basic assumption that (A) interacts with (O), so that an altered OECD-type (O’) results from this:

$$O \rightarrow O'; \quad O' = f(O; A)$$

(O’) is the resulting prevailing type of defining ‘good business’ in the future global economy. This assumption implies that (O’) encompasses features that can be traced back to the impact of (A). The above stated general research question (‘What is ‘good business’ in the global economy?’; see

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21 The assumption of a dependency relation between the two variables is derived from earlier research and theoretical groundwork in the pertinent literature, but will nevertheless be subject to examination in the course of this study.

chapter 1.1) can thus be refined to ‘What is the impact of the emergence of the Asian Drivers on definitions of ‘good business’ in the global economy?’ The assumption  $O' = f(O; A)$  means to anticipate ( $O'$ ) on the basis of the current scenario ( $O$ ) and the independent variable ( $A$ ).

It is important, however, to note the limitations associated with this assumption.

First, while ( $O$ ) has been observed and validated by extensive research over a long time horizon (see the Business and Society literature since the 1960s sketched in chapter 3.1.1), the independent variable ( $A$ ) has attracted less scientific attention so far. Furthermore, the time horizons for the developments of ( $A$ ) are very short. Transnational business activities of the Asian Drivers are a very recent phenomenon and could turn out to be only transitory, losing momentum as rapidly as they gained it before. An exercise of extrapolation of development dynamics observed during limited time horizons is risky, and therefore has to be embedded in particularly sound arguments. This limitation has to be made, in principle, for the general literature on the rise of the Asian Drivers, as the development dynamics of parameters cannot yet be entirely determined, for the same reasons. Besides the parameters, relevant policies accompanying the Asian Drivers’ global ascendancy and integration are just being developed lately (Gu / Humphrey / Messner 2007, 21; Zhang 2008, 3). The historical project of the capitalist institutional development of China’s economy remains indeterminate (McNally 2007a, 197). It is not entirely clear whether the global integration of the Asian Drivers will adhere to logic gained from current analyses.

Second, one could indeed also identify other variables that impact ( $O$ ), the inquiry of which would, however, exceed the scope of this research. For instance, the impact of the emerging world other than the Asian Drivers on the subjects of this research has to be taken into account. Several other ‘anchor countries’ (Stamm 2004; BMZ 2004), such as Brazil, Argentina and Chile have already contributed to the discussions on the OECD Guidelines (OECD 2000, 4) and may again introduce new features to ( $O'$ ) in the future. Even if the inclusion of these and other important anchor countries into a broader OECD consensus is considered less problematic than for the Asian Drivers, for reasons of cultural proximity (e.g. in the field of development cooperation) (Altenburg / Weikert 2007, 1), their influence nevertheless has to be acknowledged.

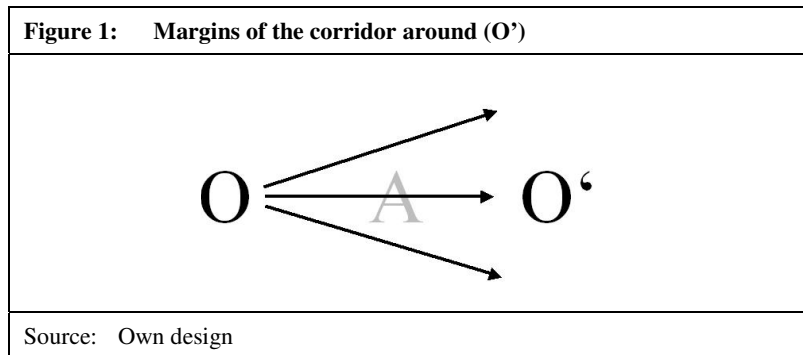
Third, to the same extent as exogenous factors, endogenous ones impact (O'). The discussion on 'Corporate Social Responsibility', 'Corporate Governance' and 'Globalisation and its Discontents' (Stiglitz / Chang 2003) within the OECD world also resulted in alterations of definitions of 'good business' in the OECD world. This discussion gained momentum since the onset of the recent global financial and economic crisis – and the range of arguments on global capitalism has diversified noticeably.

While these limitations have to be observed, there nevertheless is plenty of reason to suggest that the rise of the Asian Drivers is one of the major challenges faced by global structural politics today (Humphrey / Messner 2006a; Kaplinsky / Messner 2007; Fues 2007; Wolff 2006, 13). Researchers expect *tectonic shifts* due to the massive-scale effects that come into force in the event of the rise of both China and India. The onset of these scale effects is already showing very tangible results. China already emits more CO<sup>2</sup> than the largest OECD economies (Vidal / Adam 2007; Zhang 2008), harbours pivotal technology clusters and triggers global market responses by its policy actions (such as exchange rates, interest rates or commodity prices). India's impact – though not yet as pronounced – already casts its shadows onto the global markets, e.g. by the acquisition, ownership and command of OECD-based multinational corporations. The impact of the Asian Drivers, bar its future development, is already a reality and the current development dynamics adhere to exponential logics (see chapter 1.1).

It is therefore justified to assume similarly significant momentum for the topic of this research, i.e. global definitions of 'good business'. *"What ever the outcome, the emergence of China as a major capitalist political economy is already altering the landscape of institutional arrangements at the national and global level. Undoubtedly, China will leave its unique imprint on 21st century capitalism"* (McNally 2007a, 200). And as the chief economist of Deutsche Bank, Norbert Walter, points out, this imprint could seriously affect the way capitalism will work in the West: The growing scale of equity investment in the OECD from businesses and SWF with non-OECD backgrounds could imply that the 'new investors' understand capitalism rather differently than the current owners – who in the broadest sense were committed to western societal and political models (as inherent in 'O'). With the advent of new non-OECD principals in the western business world, *"European humanism and social statehood could be in greatest danger"* (Büschemann 2008, translation jw).

For these reasons of high relevance and great urgency, this study assumes the pragmatic stance that the timeliness of the research outstrips its methodological caveats. In an argumentation borrowed from the political precautionary principle, it is held that the absence of scientific certainty on the development dynamics of the Asian Drivers does not qualify as a reason to delay urgently needed research.

Taking into account the above-stated limitations to this research design, it is furthermore assumed that (A) is *significantly impacting* (O') – although not determining it. Statements on (O') may thus well vary within the margins of a corridor (see fig. 1). The aim of this study is exploring the field within the boundaries of this corridor and identifying applicable analytical categories for approaching this new field of research within the global governance discourse.



Practical restrictions to the research are also limiting the scope of this endeavor. For feasibility reasons, the survey within this study prioritises research on emerging Chinese global players over research on their Indian counterparts. However, this is an omission not so much for deliberations of relevance, but much more so for reasons of sequencing. Certainly, the inquiry on emerging Indian global players is equally necessary in order to advance scientific knowledge on the issue under observation.

Lastly, it must be noted that this study does not follow a culturalist approach, which sees cultural values as causes for distinct socio-economic results (Landes 1998). The ‘Asian Values discussion’ of the recent decades (Barr 2000) will not be revisited here. With the subsequent industrial ascendancy of first the West, then Japan and the Asian Tigers, then China but also India,

the values-centered explanations of economic success – be they Protestant, Confucian or Hindu – no longer have much support, neither in the West nor in Asia. Within the global discourse on ‘good business’, Asian voices find that “*a good idea is good, no matter whence it emanated. We do not need to find convoluted ways to bring the issue of incompatibility with Asian values into the equation to explain away useful concepts*” (Kiroyan 2008).

This study also does not employ structuralist arguments, which pose power relations and structural asymmetries therein as the root causes in development theories. Rather, the framework of arguments is built up from the need for legitimacy of social institutions – regardless of the structural realities they emanate from. This does not mean that power relationships are not observed. On the contrary, the study *embarks* from the observation that the structural power realities, so far dominated by the OECD world, are currently being overhauled. However, the focus is not the power relationships between central or peripheral parts of the global economy (Frank 1970; Wallerstein 1976), but those in trans-nationally organised global value chains (see chapter 3.2).

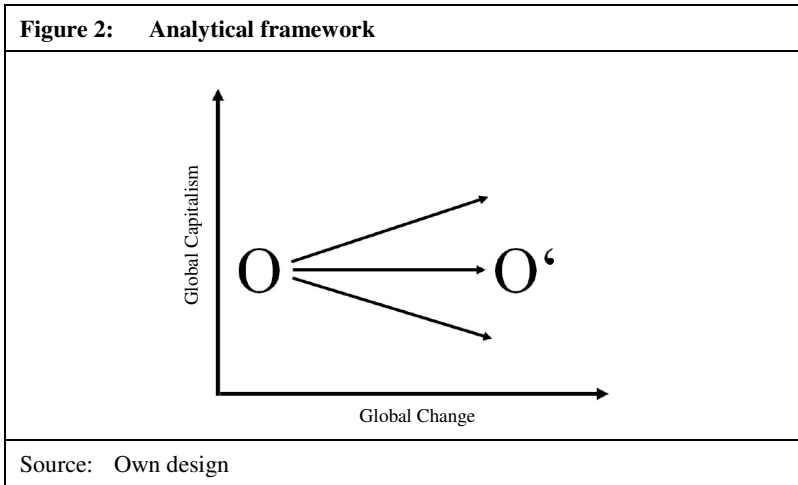
### 2.1.2 Analytical framework

Impact exerted on one variable by another can only be explained with the help of a hypothetical construct derived from a viable framework of analysis.<sup>22</sup> In the case of this study, the question is: what kind of analytical framework is best suited to inform statements on (O’) on the grounds of observations of (O) and (A)?

An analytical framework is proposed in the following that encompasses the two dimensions ‘global change’ and ‘global capitalism’. The global capitalism dimension is developed with reference to the debate on ‘Business and Society’, or CSR, with concepts of business legitimacy and with the help of varieties between institutional arrangements in different forms of capitalism. Global change will be approximated with reference to the current observable power shifts inflicted by the emergence of the Asian Drivers, among others, in the perspective of the social division of labour in the global value chains. As these two dimensions frame the basic assumption of the impact exerted by (A) on (O) (see fig. 2), they are elaborated on in more detail in the following.

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22 For example, a notion that too much computer game consumption increases the potential for aggression of youths needs a socio-psychological explanatory model.



### 2.1.2.1 The global capitalism dimension

As global production regimes integrate, capitalist forms of socio-economic organisation inter-penetrate societies all over the globe. Since there are variations *within* the OECD world's capitalisms already, it is to be expected that variations between the OECD and the Asian Drivers would be even more pronounced. Variations to institutional configurations of capitalist production regimes within the one 'new global capitalism' (McNally 2007a 193) can be arrayed along a spectrum. Thus, the manifold national and regional endogenous institutional dynamics are interlinked with the global dynamic. The notion that a variety of conceivable forms of capitalist production systems exists, and that capitalism "*can no longer be studied as a whole*" (Höpner 2003b, 21), results from the 'varieties of capitalisms' literature that will be examined in chapter 3.

### 2.1.2.2 The global change dimension

Within the discussion on current global change, two important aspects can be identified:

First, the concept of 'private governance' (Pattberg 2005) or 'private global governance' (Messner 2002, iii) stresses non-state actors as active drivers

of global change. Given the relative weight of *business* actors among the non-state actors, this implies an increased impact of business actors on global governance results. As globalisation brings about advances in the global social division of labour, this impact is localised in the privately governed global value chains. And as business actors shape the global value chains, aspects of power distribution come in, and “*value chain governance*” (Gereffi 1994; Gereffi / Humphrey / Sturgeon 2005, 79; Stamm et al. 2006, 37), determining power structured bargaining processes in global value chains, plays a role.

Second, global change is constituted by the increasing impact of the Asian Drivers on global governance results. As for other policy areas, the Asian Drivers' impact can also be anticipated for value chain governance.

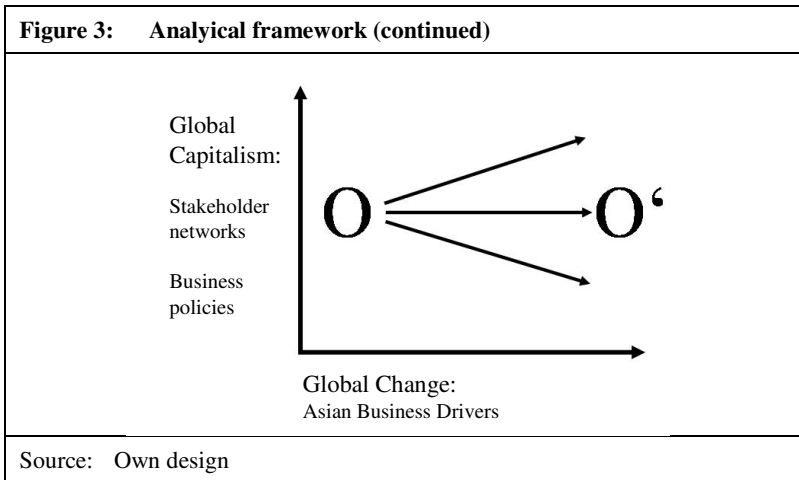
Framed by the two dimensions global capitalism and global change, any alteration of (O) can either be viewed from the perspective of institutional variation: here, the *variation* between (O) and other types of definitions of 'good business' comes to the fore; or, from the perspective of global change driven by the increasing impact of both business actors and the Asian Drivers: there, the *impact* of the new drivers of global change on (O) comes into focus.

### 2.1.3 Analytical categories

As a cross section of the two identified important actor groups in global change 'business' and the 'Asian Drivers', *Asian Business Drivers of Global Change* are entering the stage. Asian Business Drivers are business actors that are originating from the Asian Drivers China and India, and are exerting global outreach and impact, thus driving global change (for definition and classification see 4.1.2 and 4.1.3).

By focusing on the Asian Business Drivers, the framework elaborated so far is now narrowed down to an actor level of analysis. When approaching (O'), incrementally moving along the dimension of global change now means that actors of growing importance are the Asian Business Drivers of Global Change. These are furthermore the basic analytical category to be investigated in this study. Correspondingly, the scale of the global capitalism dimension is also narrowed down. The appropriate analytical categories for empirical research in the global capitalism perspective are stakeholder networks and business policies (see fig. 3).





## 2.1.4 Variation assumption and impact assumption

In the following, two sentences are being introduced that guide the empirical research on the discussion of ‘good business’ in the face of the emergence of Asian Business Drivers. Having derived from the analytical framework, these sentences aim at both *variation* along the global capitalism dimension, and at *impact* along the global change dimension.

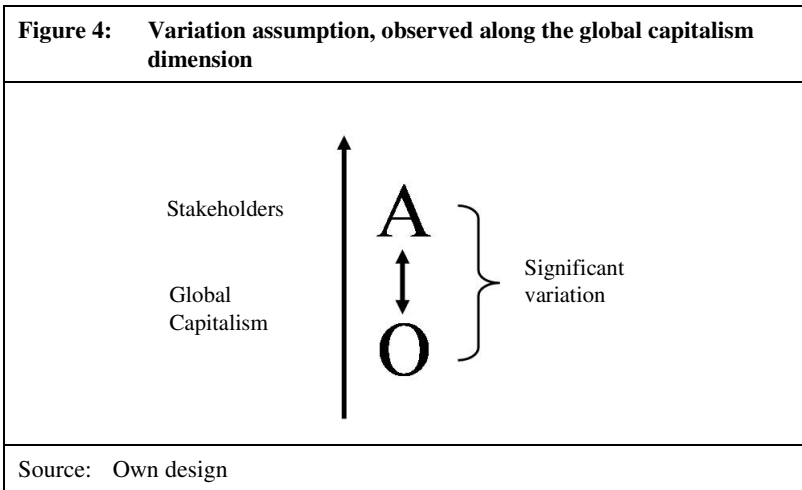
### 2.1.4.1 Variation assumption: A new variety of business legitimisation

The basic assumption above (see chapter 2.1.1) suggests that there is a discernable OECD type of business legitimisation (O), which has been sketched in chapter 1.2.2. (O) implies distinct features of stakeholder networks and distinct business policies. If these features are OECD-specific and if the analytical category (see chapter 2.1.3) is well-chosen, then an Asian Business Drivers type of business legitimisation (A) can be assumed, equally encompassing distinctive features of stakeholder networks and business policies.

The variation assumption (VA) is thus:

VA: Asian Business Drivers’ acquisition and retention of legitimacy varies significantly from the OECD type. There is a significant variation between (A) and (O).

Empirically, the variation between (O) and (A), i.e. evidence on the validity of the VA, is measured by comparative research on the features of a small number of cases benchmarked against the OECD type (O). This exercise results in an empirical grounding of the VA – while, as noted before, not applying a falsificatory approach. Should empirical results challenge the VA, rather than giving it up entirely (as would be necessary in the hypothesis-testing design), a thorough revision and refinement of VA is called for. This revision would then look into ways of reconciling the empirical insights with the emerging theory.



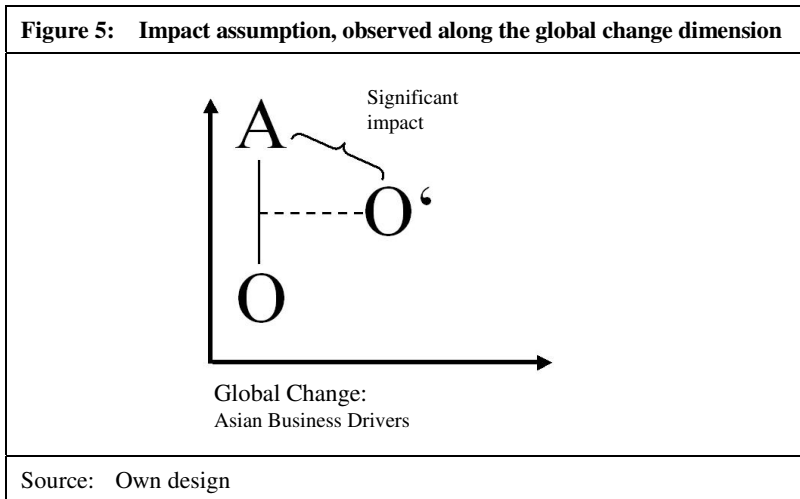
#### 2.1.4.2 Impact assumption: The impact of the Asian Business Drivers on future forms of business legitimisation

The history of the reception of OECD company-led standards in Asian Driver countries indicates that with the emergence of bargaining power for the Asian Drivers, OECD standards are altered, adapted, re-formulated or rejected. In order to shed light on the research question (see chapter 2.1.1), adding these aspects of bargaining power to the research on the varied forms of business legitimisation is required.

The second sentence, the impact assumption (IA), is therefore:

IA: Because of their VA and their increased weight in global governance, Asian Business Drivers' acquisition and retention of legitimacy significantly impacts the global efforts of defining legitimate business behaviour. (A) significantly impacts the development of (O) (= O').

Restating, but also substantiating the basic assumption (see chapter 2.1.1), the IA encompasses the notion that (A) is exerting impact on the expected development of (O) (which has been defined as O').<sup>23</sup>



### 2.1.5 Operationalisation

In order to implement the research design, it is necessary to make its various categories commensurable. Therefore in the following, the operationalisation of the concepts included in the assumptions is being tackled. To this end, the overall concept 'business legitimacy' is operationalised first, before the elements of the two sentences (VA and IA) are operationalised in two consecutive steps.

23 It must be noted here that O also impacts A. As argued in chapter 1.2, however, until now (O) had been the prevailing type in the global markets and the fact that (O) impacted other types had been taken as a given. The novelty here is the growing importance of (A). Hence, only the unidirectional impact of (A) on (O') is under scrutiny here.

### 2.1.5.1 Elements of business legitimacy

In order to render them operable for research, the categories of the analytical framework as well as the composite terms or concepts inherent in the sentences VA and IA have to be broken down into their elements. The research methods (to be introduced later) have to be thoroughly gauged towards these elements. Thus it is avoided that semantic fuzziness or diffuse connotations of categories produce artifacts.

In the social sciences, these elements are usually called ‘dimensions’, and the process of identifying the dimensions is called ‘dimensionalisation’ (Diekmann 2007; Kromrey 2006, 40). However, in order not to confuse this with the dimensions of the analytical framework introduced before (chapter 2.1.2), the terms ‘concept’ and ‘elements’ (see table 1) will be used here.

The central concept of this study is ‘business legitimacy’. From the review of literature, chapter 3.1 develops four elements of business legitimacy that can be identified with reference to Max Weber’s conception of legitimate rule (Weber 1922, Kap. III, 1, §2), and to more general theories of legitimacy. These elements are i) references to role models, ii) ideationally and iii) procedurally including stakeholders, and iv) output legitimacy. These elements are derived from literature but can be observed empirically in businesses’ institutionalised practices, for instance for aspects of stakeholder networks or business policies (see the mapping in table 1).

### 2.1.5.2 Operationalisation of the variation assumption

VA: Asian Business Drivers’ acquisition and retention of legitimacy varies significantly from the OECD type. There is a significant variation between (A) and (O).

The assumption can be split up into four separate terms: i) the term “Asian Business Driver” has been introduced as an analytical category on the global change dimension and is further elaborated in chapter 4; ii) the term “acquisition and retention of legitimacy” is broken up into four elements (see previous chapter); iii), (A) is the combination of i) and ii) and emerges as a result of empirical research, iv) and as introduced before, (O) is the OECD-type benchmark of business legitimacy.

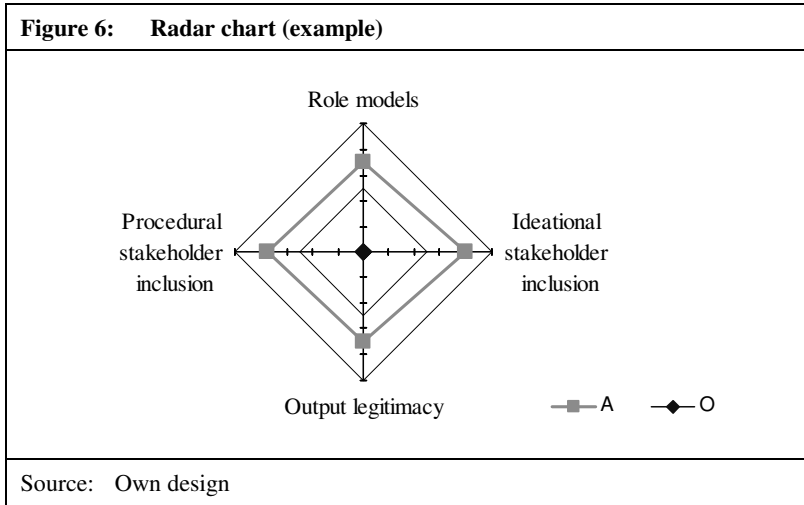
For measuring degrees of accordance or variance between (O) and (A), scales are constructed, along which distinct values can be assigned to the

<b>Table 1: Mapping of analytical categories and elements of business legitimacy (example)</b>					
<b>Analytical categories</b>		<b>Elements of business legitimacy</b>			
		Role models	Ideational stakeholder inclusion	Procedural stakeholder inclusion	Output legitimacy
Stakeholder networks	Annual meeting			X	X
	Public relations	X	X		X
	Stakeholder meeting	X	X	X	
Business policies	Mission statement	X	X		
	Annual report	X	X	X	X
	Code of conduct	X		X	
Source: Own compilation					

relevant characteristics of the analytic categories (see table 8 in 5.3.1). In order to be able to construct the scales, some operational steps have to be made: whereas the benchmarks for (O) are situated at one end of the scales, benchmarks for (A) mark the other extremes. The (A) benchmarks are generated by extracting distinct features of business legitimisation from (here: Chinese) domestic discourses of Asian Drivers. In order to indicate the discursive nature of its origins, the (A) benchmarks are labeled ‘discourse type’ of (A) – (dt A) – in the empirical chapters of this study.

Ultimately, the term “varies significantly” (or “significant variation”) remains to be operationalised. If the VA is correct, then the characteristics of the Asian Business Drivers take on values significantly different to the OECD-type benchmark (in the defined scales). In order to discriminate, significance thresholds are defined according to plausibility deliberations.

Radar charts visualise the measured values (see fig. 6 as an example). For each dimension, the origin of the radar chart marks the extreme value for (O) conformity, i.e. the conformity with the OECD-type benchmark. The outer extreme of each scale marks conformity with (dt A).



It is important to note that pre-defined categories and scales cannot possibly be exhaustive. The qualitative approach (see chapter 2.2) means to constantly look into identifying new categories – and thus refining, and better gauging towards the relevant variables, the pre-defined ones. Iterative definition processes of categories and scales are part and parcel of the whole research process, including the data analysis. The radar charts should therefore facilitate the cognition of the social facts under scrutiny; they should however not be mistaken for an attempt of undue quantification of qualitative data.

Equipped with this operationalisation and bearing in mind the illustrative character of the visualisation of the results, the (A) type can furthermore be constructed. However, in order to more concisely approximate the empirical world with this research, more than one (A) type is being observed: (A) takes on different forms for different classes of Asian Business Drivers. As chapter 4 shows, the analytical category ‘Asian Business Drivers’ exhibits various forms; various quite different businesses can be subsumed by this

category. In order to display this variance *within* the category, five distinct classes will be defined in chapter 4.<sup>24</sup> Measuring the (A) types of each of these five classes enhances the results considerably: instead of one overly aggregate construct, various (A) types account for the different conditions under which values for (A) are identified.

The (A) types are generated by empirical research on distinct cases of Asian Business Drivers. Per definition, a value of 0 is assumed for perfect conformity with, a value of 1 for perfect variation from, the (O) type. 0 and 1 mark the extreme values of the defined scales. The construction of the types is accomplished by the ‘fuzzy sets method’ according to Charles Ragin (Blatter / Janning / Wagemann 2007, 221 ff.): With the help of the defined semantics of the threshold value 0,5, empirical units can be discriminated to vary significantly from (O) or not. For the ‘role models’ element of business legitimacy, for instance, either an upper case ‘R’ (for variation) or a lower case ‘r’ (for conformity) is assigned to the type (see table 2). This operation is repeated analogously for the other elements in order to assign I or i; P or p; O or o. The resulting RIPO-combinations thus illustrate the relative variation from or proximity to (O). Perfect variation results in the “RIPO” type and perfect conformity in the “ripo” type. 14 intermediate types ( $2^4 = 16$ , minus the two extreme types) range between perfect variation and perfect conformity.

According to Ragin’s fuzzy set algebra, membership values of types are determined by the lowest of the values that are assigned to the variables. For the lower case arguments r, i, p and o, the inverse values are being used. This procedure means that the whole type is deemed no better than its weakest part, i.e. the least articulate variable included in the type (Blatter / Janning / Wagemann 2007, 221).

Significance is thus grasped as a concept of how well the ideal-type illustrates the underlying social facts. This has to be taken into account when observing and interpreting the (A) types later on.

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24 These are: State-owned Multinational Enterprises, Private Business Pioneers, Supply-End Drivers, New Global Brands and New Global Sourcing (see chapter 4).

<b>Table 2: Ideal type construction using fuzzy sets (example, fictitious values)</b>					
<b>Case</b>	<b>Role models</b>	<b>Ideational stakeholder inclusion</b>	<b>Procedural stakeholder inclusion</b>	<b>Output legitimacy</b>	<b>Empirical type (membership value)</b>
Case 1	0,7	0,6	0,8	0,7	RIPO (0,6)
Case 2	0,9	0,4	0,7	0,1	RiPo (0,6)
Case 3	0,2	0,35	0,7	0,9	riPO (0,65)
Case 4	0,1	0,1	0,01	0,8	ripO (0,8)
Source: Own compilation					

The above-said makes evident that the resulting (A) types take on forms of Weberian ideal types (Weber 1968; Blatter / Janning / Wagemann 2007; Schüle 2001). Ideal types are generated, if one or more characteristics of a given phenomenon are emphasised over others and if, with the help of this, numerous phenomena can be aggregated into one consistent model of thought:

*“Er [the ideal typus] ist ein Gedankenbild, welches nicht die historische Wirklichkeit oder gar die ‚eigentliche‘ Wirklichkeit ist, welches noch viel weniger dazu da ist, als ein Schema zu dienen, in welches die Wirklichkeit als Exemplar eingeordnet werden sollte, sondern welches die Bedeutung eines rein idealen Grenzbegriffes hat, an welchem die Wirklichkeit zur Verdeutlichung bestimmter bedeutsamer Bestandteile ihres empirischen Gehaltes gemessen, mit dem sie verglichen wird. Solche Begriffe sind Gebilde, in welchen wir Zusammenhänge unter Verwendung der Kategorie der objektiven Möglichkeit konstruieren, die unsere an der Wirklichkeit orientierte und geschulte Phantasie als adäquat beurteilt“*  
(Weber 1968, 194, cited in Blatter / Janning / Wagemann 2007, 44 f.)

The ideal types (A) mark the meaningful constituents (“bedeutsame Bestandteile”) of the businesses’ legitimisation patterns and are being integrated and validated through secondary data using the adequacy judgements on behalf of the researchers’ ‘reality-trained imagination’ (“an der Wirklichkeit orientierte und geschulte Phantasie“).

The ideal types (A) finally serve to support, refine or re-define the variation assumption.



### 2.1.5.3 Operationalisation of the impact assumption

Subsequent to the comparative perspective on (O) and (A), this research assumes a quasi-hypothesis-testing perspective. However, in order not to confuse this with research procedures in quantitative social research, the sentence to be ‘tested’ is being called an impact *assumption*.

IA: Because of their VA and their increased weight in global governance, Asian Business Drivers’ acquisition and retention of legitimacy significantly impacts the global efforts of defining legitimate business behaviour. (A) significantly impacts the development of (O) (= O’).

When splitting up the distinct terms included in the IA, it becomes evident that it combines aspects the global capitalism dimension with aspects of the global change dimension of the analytical framework (see 2.1.2). The ideal type (A) and the variance between (O) and (A), ranging along the global capitalism dimension, have before been operationalised in the VA. ‘Increased weight in global governance’, in turn, refers to global shifts in bargaining power, and thus to the global change dimension, whereby (O’) is assumed as the dependent variable, and (A) is assumed as the independent variable.

Therefore, research on the impact assumption has to employ an additional empirical module that operationalises the term ‘impact’. This is accomplished using analyses of historical processes in which empirical types of (O) and (A) interact.

Thus, IA is scrutinised by analysing the historical processes of proliferation (on behalf of OECD actors) and reception (on behalf of Asian Drivers actors) of OECD standards. This empirical module employs the method of ‘process tracing’: *“The process-tracing method attempts to identify the intervening causal processes – the causal chain and causal mechanism – between an independent variable (or variables) and the outcome of the dependent variable”* (George / Bennet 2005, 206). In between the independent variable and the outcome of the dependent variable, *“the researcher looks for a series of theoretically predicted intermediate steps”* (Checkel 2005, 5).

In order to be consistent in generating the ideal type in the ‘variation’ survey, the process analysis on ‘impact’ will observe China. The particular process under observation is the reception of the standard SA 8000 (SAI 2008) in China (see chapter 5.5).

SA8000 can be seen as an empirical manifestation of the ideal type (O). Being rather strict, it locates perfectly within (O). Compared to the OECD guidelines, however, SA8000 is closer to market actors, as it requires audits and certification processes. Therefore, many more empirical bargaining processes can be observed for SA8000 than for the OECD guidelines.

For the analysis of impact exemplified by the SA8000 reception process, two questions are crucial:

Can the ideal types (A) be identified to have played roles in the actors’ decisions? Can the shifting bargaining power in favour of Asian Business Drivers be identified to have played a role in the actors’ decisions?

The challenge of this analysis is to bring instances of (A) and instances of shifting bargaining power in the causal chains to the surface. The data to be used for the process analyses is gained from qualitative interviews and content analyses of both primary and secondary documentation of the processes observed.

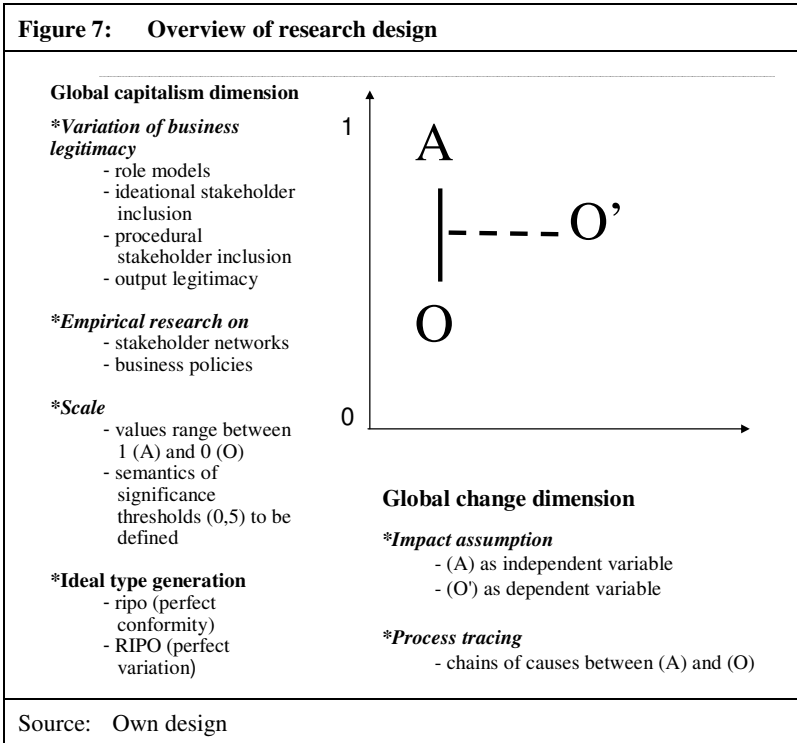
Within this explorative and theory-generating design, research on the IA does not undergo hypotheses-testing methods in the same sense as in quantitative research. Instead, the results of the process analyses are capable of informing future inquiries on (A), then potentially informing hypotheses-testing designs.

### 2.1.6 Overview of research design

The previous chapters outlined the way in which the empirical research on the theoretically derived assumptions is designed. To sum up and illustrate, figure 7 gives a comprehensive overview of the research design.

## 2.2 The qualitative research programme

The following gives the reasons for choosing qualitative empirical research methods for the purposes of this study. As outlined above, this research takes on an explorative, theory-generating design. Meaningful statements on the future development of the global debate on ‘good business’ (O’) require a thorough perception of the relevant *present* determinants and dynamics. In this case, these are the OECD type of good (legitimate) business (O) and the Asian Drivers type of good (legitimate) business (A).



However, perception and cognitive processes of any kind – and thus also scientific analysis – are implicitly or explicitly guided by assumptions. The variation assumption and the impact assumption that guide this research have already been explained.

Only *quasi*-hypothesis-testing methods are applied within this study. Whereas hypothesis-tests within the framework of the nomothetic-deductive programme interpret deviation either as random or systematic error, pointing to the falsification of the hypothesis, this research lays particular emphasis on such deviant phenomena: they are useful hints for refining the hypotheses and calibrating the instruments for future thrusts into the research of (O'). The sentences are thus subject to revision and refinement at any stage of the study.

For example, the variation between patterns of business legitimisation employed by Asian Business Drivers and the (O) type (VA) can be manifest in up to 16 different empirical types. The variation assumption thus depicts a broad range of patterns, of which one pattern might be different from (O) in ways more accentuated than another.

For identifying causalities for the impact of (A) on (O) (IA), furthermore, a stringent causal chain in one single case can already reveal all the relevant process logic that there is to reveal. Nevertheless, a variety of causal chains might apply to different cases. The question, then, is not so much whether there *are* different schemes of causalities in deviant cases – which would be a falsificatory approach. It is rather: what other features of the deviant cases bring about the different schemes of causalities. The deviations thus enrich the previous results instead of making them obsolete.

Therefore, those empirical research methods are chosen in the following, which emphatically allow for deviation from pre-stated hypotheses and concepts – and understand them as part of the research process. These are found in the qualitative empirical research programme, which is introduced very briefly here, using a few formative characteristics.

In his “Hidden Agenda of Modernity”, Stephen Toulmin proposed the following formula for re-adjusting the objectives of science:

- the return to the oral,
- the return to the particular and to local contexts,
- the return to the timely (Toulmin 1992, 186 ff.).

Using the terms of the empirical social science, this proposition points to important requirements of the qualitative approach, which can be identified as

- empirical science as communication,
- openness vis-à-vis the particular, situational and localized,
- processuality of research and objects (Lamnek 1993, 21 f.).

These requirements will be briefly explained here.

### 2.2.1 Empirical science as communication

In the qualitative social science, data more often appears in the form of words rather than numbers (Miles et al. 1984, 21), although it is not decisive whether the data was originally collected verbally. For instance, visual or acoustic data gained by observatory methods are also transformed into words through documentation and transcription. The “*return to the oral*” in social science thus more often (but not necessarily) means that the object of research tends to be communicative in nature. Equally, the research situation as such, the relation between the researcher and the source of the data – the actor surveyed – is identified as a communication situation, to which the mechanisms of this special social situation apply. The data obtained from the actors portray a version of the actors’ social reality. The researcher collects this version by understanding it in an interpretative manner. Moreover, the data constitutes the reaction to the interest of the researcher perceived by the actor, for instance, through the questions in an in-depth interview. ‘Reactivity’, however, is not a source of error – as is the case in quantitative approaches. It rather is a constitutive part of a research process, which is explicitly understood as communication (Lamnek 1993, 24).

### 2.2.2 Openness vis-à-vis the particular, the situational and the localized

Likewise, the principle of openness in the qualitative research process can be seen in opposition to the quantitative approach. Whereas in the latter, only those bits of information get processed, which pass the *ex-ante* established filters made up of hypotheses and applicable methods, qualitative researchers postulate that, *vice versa*, methods should be adapted to the research object. In order to avoid research design-contingent selective perception, the ‘funnels of perception’ should therefore be opened up as widely as possible (Lamnek 1993, 22).

Openness in the survey situation and flexibility with regard to the applied methods is the precondition for the ability to bring out the unexpected and the particular by means of empirical research. However, it is well known in the methodological discussion that the qualitative approach generates insights on the particular, the local and the specific at the expense of the ability to generate universal statements.

### 2.2.3 Processuality of research and subject

The processuality in qualitative research results from the proposition that empirical science is communication. Actors’ collective patterns of acting and interpreting cannot be perceived as static. As interpretative sociology assumes that these patterns are continuously reproduced, and thereby modified through the actors (Lamnek 1993, 24), the data gained from the interaction between researcher and actor has to be understood as time-bound ‘snapshots’. Only organising the snapshots by establishing theory-guided meaningful links between them results in the ‘moving picture’ that does justice to complex social realities. *“To document, analytically reconstruct and, finally, interpretatively reproduce this process of constituting reality [on behalf of the actors] is the central concern of a qualitative social science”* (Lamnek 1993, 25, translation jw).

The research in the frame of this study conveys the characteristics of the qualitative programme: The empirical research within this study has to accomplish to collect snapshots of the variable (A) with the potential to reveal – if organised in meaningful ways – the constitutive patterns of (A). Mindful of the processuality of social facts, it arrives at statements on (O’) as a result of the observed development dynamics between (A) and (O).

## 2.3 Survey

In which ways the qualitative programme is adhered to in this study is briefly explained here. In this step, the target group, the survey and the applied survey instruments are introduced.

Main points of reference are the different survey modules employed in the course of the research process. These are:

- **Survey module 1 ‘discourse analysis’**: This module is informed by desk research and expert interviews. It aims at informing on the variation assumption (supporting or refining) and develops the ‘discourse type’ of (A) (dt A) from the internal discourse of the Asian Drivers (here: Chinese). The (dt A) examines variance at the discourse level and rules out the potential for variation between (O) and (A).
- **Survey module 2 ‘ideal type generation’**: This module deploys content analyses of primary and secondary documents and in-depth com-

pany interviews, both informing detailed case studies. It aims at generating the ideal types that, again, feeds into informing on (supporting or refining) the variation assumption.

- **Survey module 3 ‘process analysis’:** This module also deploys content analyses of primary and secondary documents and in-depth interviews. Survey module 3 elaborates on the impact assumption.

In order to arrive at valid conclusions, the results of the survey are re-embedded in the theoretical framework. In accordance to their relevance, the results that emerge from this study will then be compiled in chapter 6.

### 2.3.1 Survey methods

The survey on business legitimisation in the face of the emergence of Asian Business Drivers combines reactive and non-reactive methods. Reactive methods comprise expert interviews and in-depth company interviews, non-reactive methods include desk research and content analyses. This separation notwithstanding, the different methods make indifferent use of, and constantly review, the same set of concepts (elements of business legitimacy) and analytical categories (Asian Business Drivers; their stakeholder networks, business policies).

#### 2.3.1.1 Semi-structured expert interviews

In order for the research design to be well grounded within the international expertise on the relevant issues, semi-structured expert interviews were conducted. Thereby, it is the reactivity of the interview situation that allowed reviewing the assumptions that guide the research. In this way, views of experts have been triangulated<sup>25</sup> with results from the literature and desk research in order to inform the emergent theoretical constructs. To progress in the process of iterative research, the structure of the interviews was continuously adjusted so as to include the most recent insights. The semi-structured expert interviews thus allowed sketching the field of research and validating interim results. Semi-structured expert interviews were furthermore employed to analyse the discourse in China on good (legitimate) business.

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25 The technique “*of using independent pieces of information to get a better fix on something that is only partially known or understood*” is called data triangulation (Ragin 1994, 100).

### 2.3.1.2 Content analysis

Written communication constitutes an important part of businesses’ legitimisation efforts. Therefore, as a non-reactive way to immerse oneself in the generation of ideal types in the course of survey module 2, different kinds of primary and secondary documents from Asian Business Drivers are analysed. Among those are non-financial reports (social reports, CSR reports, sustainability reports, press releases, shareholder relation documents, board messages etc). The analysis of written business communication serves to embed and validate the case studies and broaden the scope of the ideal type construction.

### 2.3.1.3 In-depth company interviews

In-depth company interviews are the main methodical measures to establish empirically informed results both on AV and IA. These require particular methodological attention. The *prima facie* similarity between the interview situation and all-day communication challenges the researcher. Whereas an open and all-day environment should be established in order to open up the ‘funnels of perception’ as widely as possible, an interview is nevertheless an abnormal social situation (Scheuch 1973, 68). To give justice to these difficult characteristics of a qualitative in-depth interview, the encounters with the interviewees are as much as possible oriented towards certain instructions. These include the technical and methodological demands that the instrument makes on the researcher.

The language problem is not insignificant for the in-depth interviews. Where ever needed, the interviews are thus supported by interpreters, who at the same time take on the important role of cultural brokers. The annex contains detailed interview guidelines, the interview structure, the methodological instructions, a sample questionnaire and a sample interview log file (see annex 2 and 3).

### 2.3.1.4 Process analysis

Survey module 3 employs the method of process tracing (Blatter / Janning / Wagemann 2007, 156 ff.). This method allows for identifying causalities – which come to effect as the historical dimension unwinds – between variables that are assumed to be interrelated: *“The process-tracing method attempts identifying the intervening causal processes – the causal chain and causal*



*mechanism – between an independent variable (or variables) and the outcome of the dependent variable”* (George / Bennett 2005, 206/207, cited in Blatter / Janning / Wagemann 2007, 157).

Here, tracing the process of the proliferation of SA8000 in China should reveal the causalities between the independent variable (A) and its outcome (O’). To this end, a dense chronological account of the empirical incidents within the causal chain of events is provided, followed by a theory-guided analysis of this causal chain (Blatter / Janning / Wagemann 2007, 158). As a chain of singular empirical incidences is being portrayed, the analysis thereof does not necessarily have the same analytic depth as the case studies in the empirical module 2. Rather than the reproducibility, the density of observations and plausibility of identified mechanisms is of importance, in order to lead to and facilitate theorizing.

### 2.3.2 Sampling

The samples for each survey module are defined using theoretical deliberations and through previously established definition criteria (see chapter 4) for Asian Business Drivers. In distinction to randomised sampling usually applied in large-N quantitative research, this approach is called ‘theoretical sampling’. Theoretical sampling is “*a means whereby the analyst decides on analytic grounds what data to collect next and where to find them*” (Strauss 1987, 38).

With the help of various experts from international organisations, business associations and research institutions (see annex 1), the Chinese domestic discourse is sketched in survey module 1. Sometimes, experts recommended other experts for interviews; sometimes they were approached because they are involved in publications, conferences or pertinent processes in the field of research of this study.

For the case studies of Asian Business Drivers, companies are selected with regard to the question, in what ways a small-N sample can best reveal relevant insight to the research topic. The review of the field of research shows that Asian Business Drivers arise from a variety of conditions of the rapidly developing Chinese political economy: “Global Challengers” (Aguiar et al. 2006) *versus* the “Local Dynamos” (Bhattacharya / David 2008), state-owned enterprises *versus* newly established private companies, new *versus* early-day joint-venture companies, large-scale suppliers *versus* brand companies etc.

As is developed in chapter 4, the cases are selected with regard to the parameters *value chain governance*, *ownership*, and *mode of global outreach*. Exhibiting specific combinations of values for these parameters, the cases comprise “State-owned Multinational Companies”, “Private Business Pioneers”, “Supply-end Drivers”, “New Global Brands” and “New Global Sourcers” (see chapter 4).

Accessibility is a major bottleneck in case study research. In each case, upper and middle management are aimed for as interviewees. Without the upper management’s buy-in, however, no amount of research can possibly be conducted. Most of the times, therefore, a member of staff from middle management has to be won over as a first contact, with whom to establish sufficient trust to let the upper management allow a researcher into the company. This person fulfils the role of an institutional hook in the company, through whom thematic as much as logistical clarifications are being facilitated.

In one case, this scheme could not be applied because the company was not accessible at all (Foxconn/Honhai). However, as this case is particularly intriguing, it remains in the sample. In this case, all information is gained through primary and secondary documents and through experts who worked for or did research for the company before.

The sampling for survey module 3 – the process analysis of the proliferation of SA8000 in China – is done according to the requirements of the emerging causal chain. For instance, it is self-evident that interviewing representatives of the standard issuer of SA8000, Social Accountability International, makes a lot of sense. It is equally necessary to look at the preparations for SA8000 that have been put in place in China’s ‘socio-economic laboratory’, the city of Shenzhen. In 2004, the municipality of Shenzhen announced to its businesses to take preparatory measures with regard to SA8000’s relevance for businesses’ exporting capability. Workshops have been conducted in order to train businesses. These workshops were held by training institutions, certification companies, etc – and at each link in the historical chain that is being retraced by research, more actors enter the sample. Sampling for the analysis of this process thus means to identify, for each step, the actor group that has played a role in the causal chain. Subsequently, the next actor to be included in the sample is identified from this actor group’s vantage point. This process is called ‘theoretical sampling’ in contrast to randomised sampling in quantitative research (see chapter 2.5).

Annex 1 provides an overview of the interviewees according to each survey module of this study.

### 2.3.3 Scope of research

Within this research design, the empirical results characterise the types. These are *ideal types*, meant to be instrumental for making inroads into hitherto uncharted research terrain. The observed cases and processes that coagulate in the ideal types form the base, on which emerging explanatory patterns are grounded. Thus, the ideal types that emerge in the course of the research process delimit the scope of the research.

However, the emerging explanatory patterns are applicable to all empirical phenomena, which can be assigned to one of the ideal types. For instance, as the literature on Asian Drivers assumes similar development dynamics for India as for China, these patterns also cater to cases of Asian Business Drivers from India. As soon as a high degree of theoretical saturation (“conceptual density”, see chapter 2.4.1) is ascertained, the observed patterns and theoretical conclusions are valid within the scope of the ideal types.

Accordingly, cases of businesses (whether from China or India) that cannot be assigned to either of the ideal types are beyond the scope of this research. For instance, this study does not attend to businesses that exclusively operate in domestic markets (no global outreach) or which cannot be described as ‘drivers’ in terms of the value chain governance that they find themselves in.

## 2.4 Data analysis

### 2.4.1 Grounded Theory as ‘research style’

The results generated by the survey are systematised according to methods of qualitative data analysis. For this purpose, the analytical approach called ‘Grounded Theory’ will be deployed. A Grounded Theory-guided data analysis is briefly discussed here.

Grounded Theory has been developed by Barney G. Glaser and Anselm L. Strauss since the end of the 1960s (Glaser / Strauss 1967) and describes a set of guiding principles that enable the qualitative researcher to arrive at theories that are ‘grounded’ in the data as a result of empirical research. Strauss

calls this a "research style" (Lonkila 1995; Strübing 1997) that proceeds as follows: The researcher reads through a selection of his data and first establishes preliminary categories. These categories – called 'codes' by Glaser and Strauss, and also in the following – are merely provisional and require constant comparison with the data throughout all phases of the research. This operation has consequently entered the methodological vocabulary of qualitative researchers as the 'constant comparison method'.<sup>26</sup>

Codes are assigned to the data partly according to systematic rules, partly intuitively according to 'rules of thumb'. The systematic coding process comprises of three distinct operations:

i) 'Open coding' denotes the operation by which the researcher constructs – on grounds of comparative inquiry of the data – the provisional categories. Same codes are assigned to the same phenomena, whereby attributes that constitute the codes are defined.

ii) Whereas open coding fragments the data, the operation of 'axial coding' re-combines the data by defining the relational links between different codes on the one hand and between codes and sub-codes on the other. Open coding and axial coding operations are not necessarily done sequentially. Rather, the researcher repeatedly switches between coding modes. Continuously refining the codes in this manner is also called 'theoretical sorting'. This analytical step requires a high level of accuracy. If codes are not defined clearly enough, rooms for interpretation arise that can distort conclusions at a later stage of the analysis. *"By seeking to 'test hypothesis' without having observed the necessary prerequisites, that is by applying strict rules to vague and 'fuzzy' codes, one can easily produce artifacts"* (Kelle 1997, par. 6.2).

iii) Once a consistent system of codes has emerged in the course of theoretical sorting, during a third coding operation – 'selective coding' – the researcher concentrates on a 'core category' that best mirrors his research interest. In relation to the core category, the links between other categories (codes) are re-thought and re-defined. The concept emerging from – and increasingly consolidating within – this network of codes already exhibits

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26 'Constant comparing' requires the consistent application of the codes throughout the data and a definition that is reproducible. A thorough account of a coding process that provides procedural guidance is given by Erzberger (Erzberger 1998), who explicitly refers to semi-structured interviews.

an abstraction from the raw data. The manifest and latent content of the data is now represented by the code system. The causal relations in the code network furthermore support the construction of theoretical concepts that have emerged from the data and are thus grounded in it. Additionally, and throughout the analysis, the researcher notes down impressions, ideas and cross-references in memos.

Generating the theory while analysing the data thus prevents the researcher from falling victim to the accusation that her/his empirical results are not sufficiently grounded. *“Some theories of our predecessors, because of their lack in grounding in data, do not fit, or do not work or are not sufficiently understandable to be used and are therefore useless in research, theoretical advance and practical application”* (Glaser / Strauss 1967, 11).

As the apologists of Grounded Theory put those theoretical concepts in relative terms, which have been designed and finalised before going to the field, the same applies for pre-designed samples. To avoid pre-defined concepts once and for all determining and limiting the sample before even knowing the field, Glaser and Strauss appeal for ‘theoretical sampling’. When coding the data and establishing categories using the constant comparative method, the researcher may get clues where to investigate next, in order to ultimately arrive at a status of theoretical saturation, which Grounded Theory-terminology calls ‘conceptual density’. In the process of theoretical sampling, the emerging theory determines the emerging sample and *vice versa*. Generating the theory and generating the sample go hand in hand.

The text data generated in the three different survey modules of this study are analysed according to Grounded Theory-informed process steps. Hereby, the pre-established hypotheses of this study – and the operationalisation of same – do not contradict Grounded Theory. Contrarily to often-held claims, Glaser and Strauss do not advocate a ‘tabula rasa’-approach. Necessarily, desk research, examination of the pertinent literature and a certain amount of theorising remain part of the preparatory process of research (Wiedemann 1991, 442). Ultimately, collecting data would not be possible without a first idea where to start, and this idea is necessarily borne out of theoretical considerations. *“Strauss und Corbin (...) call it a ‘coding paradigm’, which should underlie all actions of open, axial and selective coding in order to align the codes to the emergent theory”* (Wiedemann 1991, 442).

The coding paradigm of this study comprises the results of the operationalisation of the pre-empirical concepts: the analytical categories 'Asian Business Drivers' and the elements of business legitimacy (as core categories). Using this coding paradigm, critical research steps can be implemented through theoretical sorting and the constant comparison method. For instance, results on the variation between Asian Business Drivers type and the OECD type of business legitimisation (variation assumption, survey module 2) are generated by constantly comparing the survey data with the (O) benchmark using the core categories, and thus defining the scales along which variation can be observed. The illustrative, values in table 2 (see 2.1.5.2) are thus being replaced by empirical values that emerged from the data.

#### 2.4.2 Computer-assisted qualitative data analysis (CAQDAS) using Atlas.ti

In order to make the Grounded Theory guided analysis process feasible, this study reverts to a tool of computer-assisted qualitative data analysis (CAQDAS): Atlas.ti

The computer software Atlas.ti has been developed by an interdisciplinary research project<sup>27</sup> (of researchers from psychology, linguistics and computer science) at the Technical University of Berlin. Atlas.ti is based on Grounded Theory according to Glaser und Strauss and other principles of qualitative social research (Mayring 1995, 97).

The analysis with Atlas.ti starts by assigning the qualitative data contained in primary documents (PD) to a hermeneutical unit (HU) and organising it. At any time during the research process, additional primary documents can be assigned to the hermeneutic unit in order to support theoretical sampling.

Within the hermeneutic unit, these primary documents are then coded sequentially or by switching back and forth between the primary documents. Codes are assigned to parts of the data either freely (open coding and in-vivo coding) or by pre-defined codes ('code by list'). The code list, which is developed in an iterative manner from the core categories, can be

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27 The research project 'Archiv für Technik, Lebenswelt und Alltagssprache' developed Atlas.ti from 1989 to 1992. Thereafter, Scientific Software, the company of the researcher Thomas Muhr, has further developed it into commercially viable versions.

altered and refined during the entire research process. In order to keep track of analytical ideas that the researcher develops during the analysis of the primary documents, Atlas.ti allows the posting of memos in the margins.

If all primary documents are coded, first heuristic deliberations are made using output tables that display the frequency of code assignments or co-occurrence of codes ('code neighbors').

All objects (primary documents, codes, quotations, memos) can be organised and re-organised in 'families'. Codes may additionally be aggregated to 'super-codes' – terms that combine different codes or code families using Boolean operators. By organising the codes in this way, different relations between the codes – and thus the viability of theoretical constructs – can be tested in the data. These operations support the idea of theoretical sorting and also inform theoretical sampling, i.e. the question where next to collect data.

The coding, sorting and sampling processes are repeated up to a point, at which the hermeneutic unit is "conceptually dense". To determine this point, the researcher can also turn to visualisation features in Atlas.ti. A graphical network editor can be used to display semantic, terminological or prepositional relations between the objects in an intuitive manner in order to visualise the emerging concepts: "*The networks add a heuristic 'right brain' approach to qualitative analysis*" (Muhr 1997, 129).

The hermeneutic unit for this study organises the qualitative data (documents, interview transcripts etc) in primary document families, while the codes are developed starting from the core categories (sub-concepts of business legitimacy 'role models', 'ideational stakeholder inclusion', 'procedural stakeholder inclusion' and 'output legitimacy').

All data generated by the three survey modules 'discourse analysis' (expert interviews transcripts), 'ideal type generation' (in-depth interviews transcripts, documents) and 'process analysis' (in-depth interviews transcripts, documents) are included in the same hermeneutic unit, to the effect that all parts of the survey may communicate to and fructify each others' results.

## 2.5 Summary

This chapter has introduced the methodological set-up of this study. The set-up has been outlined by way of the proposed research design (chapter

2.1), certain programmatic characteristics of the qualitative research programme (chapter 2.2) that find application in the survey (chapter 2.3), and the analytical steps (chapter 2.4) employed by this study.

The details on the research design captured the basic assumption and made explicit the limitations that have to be regarded when drawing conclusions based on the results of this study. Within only a *quasi*-hypothesis-testing, theory-generating qualitative design, the future development of the OECD type conception of ‘good business’ has been labeled the dependent, the emergence of the Asian Drivers as the independent variable.

The variables have been further concretised: the dependent variable (O’) is the resulting prevailing type of defining good (legitimate) business in the future global economy, which incorporates the impact exerted on by the independent variable, the Asian Drivers type of good (legitimate) business (A). Thus, (O’) is the further development of the present OECD type of good (legitimate) business (O) under conditions of shifting power constellations in the global political economy.

The basic assumption  $O' = f(O; A)$  has then been framed, with reference to the pertinent literature, by the dimensions global capitalism and global change. Within this framework, important analytical categories have been identified. Analytical categories on the global capitalism dimension are ‘stakeholder networks’ and ‘business policies’; the central analytical category on the global change dimension is ‘Asian Business Drivers’.

The sentences that guide this research (the VA and the IA) have been made explicit. The VA targets the variation between (O) and (A) along the static global capitalism dimension, while the impact assumption targets the impact of (A) on (O’) according to dynamics along the global change dimension.

In order to render the so-far methodical instruments fruitful for empirical research, the concept under observation – business legitimacy – has been analysed and broken down into the sub-concepts ‘role models’, ‘ideational stakeholder inclusion’, ‘procedural stakeholder inclusion’ and ‘output legitimacy’. In the course of chapter 3, these sub-concepts will be thoroughly developed from the proposed theoretical framework in order to be applicable in the empirical world.

The qualitative research programme has briefly been introduced according to a few features relevant to this research. In the qualitative researchers’ view, social science can be understood as communication, it has to display



openness vis-à-vis the research objects and the research situation, and it must consider the processuality of the research and its objects.

These requirements have been referred to when introducing to the survey modules that are employed for the empirical research: survey module 1 ‘discourse analysis’, survey module 2 ‘ideal type generation’ and survey module 3 ‘process analysis’. The methods and the theoretical sampling strategy have been made clear for each survey module. Furthermore, the scope of this research, and the limitations thereof, has been outlined.

Finally, the process steps and the rationale of the data analysis have been spelled out. The research style Grounded Theory and Atlas.ti, a tool of CAQDAS based thereon, have been introduced as means by which the qualitative data generated through empirical research is being processed.

### **3 Business legitimacy from the global governance perspective**

The branch in political science that points to institutional means to politically shape the process of globalisation is the global governance discussion (Messner / Nuscheler 2003, i). The first prominent mention of the term global governance was in the proceedings of the Commission on Global Governance and its report “Our Global Neighborhood” in 1995. Since the early 1990s, the concept has been further developed – not only in political sciences, but also through practical politics, such as the global conferences of the 1990s and the political process that the Rio Conference on Environment and Development (UNCED) in 1992 entailed. From the perspective of development policy, the report of the OECD Development Assistance Committee “Shaping the 21st Century” (OECD 1994) set many topical items on the practical global governance agenda, such as global climate change (OECD 1994, 5). Many among these items later flowed into the United Nations Millennium Declaration of 2000.

Against the backdrop of an international system of fully sovereign nation states, global governance means the emergence of transnational political organisation according to rule and norm systems. In contrast to realist models in international relations, the global governance literature takes on

multi-actor, multi-level and multi-form perspectives on governance (Messner / Nuscheler 2003, 18; Mürle 2006, 1) First, in addition to governments, individual and collective non-state actors in business and civil society co-determine the governance results in the global spheres. Second, governance results are not only shaped at the national level and between nation states in the international system, but also *between* local, national and global levels, with relations spanning across different jurisdictions and political units. And third, the policy mechanisms in global governance take on different forms: Aside from treaties between nation states and international law, supra-national structures (e.g. the European Union [EU]), inter-governmental regimes (e.g. WTO), soft law approaches (e.g. industry norms), multi-stakeholder regimes (e.g. International Labor Organization [ILO]), cross sector partnership (Public Private Partnerships, Business-NGO partnerships) and market-based instruments (e.g. ‘cap and trade’ mechanisms as in emissions trading) add to the forms of governance which organise the global political spheres. Global governance results are thus the conflux and aggregate “*of myriad [...] control mechanisms driven by different histories, goals, structures and processes*” (Rosenau 1997, 27).

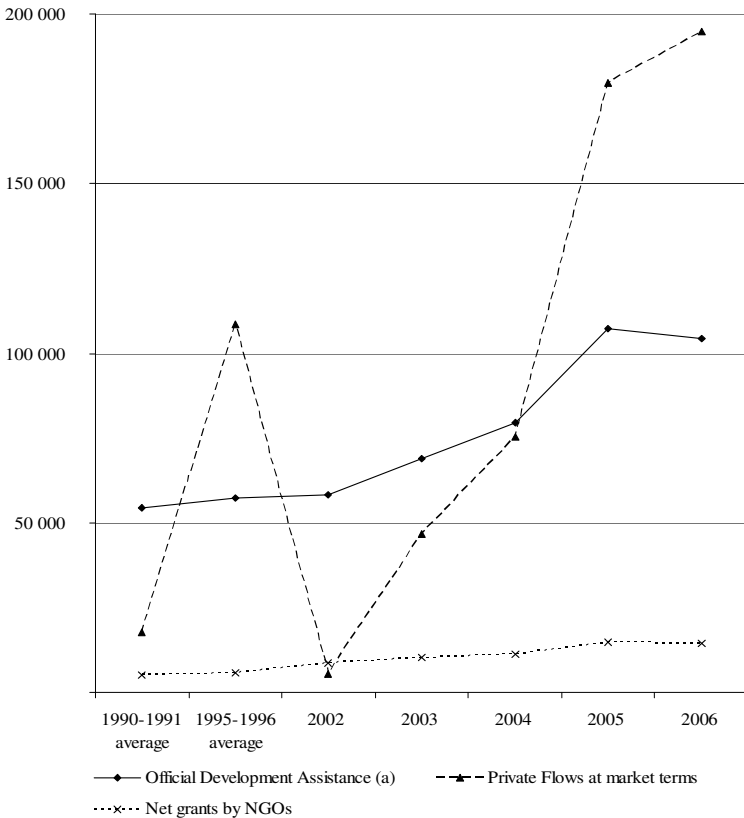
The global governance context is well-suited to frame the discussion on ‘good business’: Enforcement of rules, in this field, is to a lesser extent exercised by governments and international treaties, and to a larger extent as a result of a multitude of decisions across regions, levels and sectors.

This study combines two distinct features of the global governance discussion:

First, it stresses the multi-actor perspectives: The increased relative importance of non-state actors and, most prominently private business actors in the global governance literature has been proven by economic globalisation. In terms of size and impact of allocated resources, private capital streams are much larger than the resources allocated by state actors, e.g. when comparing the streams of official development aid (ODA) with figures on FDI (see fig. 8), trade or intra-firm trade.

Private actors’ increased significance to global governance results, however, is accompanied by increased responsibilities. Examples are the enforcement of Human Rights or tackling of environmental and development challenges, as for example those spelled out in the Millennium Development Goals (InWEnt / WBI 2006; 2007; 2008). Business engagement in

**Figure 8: Total net flows from Development Assistance Committee (DAC) countries by type of flow, US\$ million**



Source: OECD (2008)

global governance renders business actors as active drivers, for instance of global climate change policies (see Weikert / Petkoski / Ramalho 2008 for a selection of examples).

Second, reasoning about the rise in relative global significance of important politico-economic world regions adds a geographic dimension to the discussion: solutions to global problems need to include the *Asian Drivers*

China and India (Schmitz 2005; Schmitz 2006; Humphrey / Messner 2006b; Kaplinsky 2006; Messner 2007a; Schmitz / Messner 2008; Messner / Kaplinsky 2008).

As a synopsis of these two streams within the global governance literature – and as moreover can be observed empirically – *Asian Business Drivers* can be identified to be an important analytical category for research on the business legitimacy challenge.

In order to inform a theoretical frame of reference for this research, the global governance literature is examined from within a perspective of private global governance (Messner 2002, 20; Pattberg 2005), which can be understood as the role that private actors – here, private business actors – play in the establishment and maintenance of global rule systems.

However, governance beyond the nation state and particularly private global governance harbours the hitherto unsolved legitimacy problem: Transnational businesses (as well as transnational NGOs; Baur 2006) do not enjoy an unambiguous social base of legitimisation for their activities in the various global spheres (Messner / Nuscheler 2003; Hiß 2006). For businesses, economic success may be a source of output legitimacy. This, however, is an insufficient form of legitimacy and has to be accompanied by other forms. Hence, if advocacy groups in one corner of the world contest legitimacy of businesses in the other, businesses cannot defend themselves by referring to institutionalised mandates, as they would in the framework of the nation state within which they are incorporated as legal persons.

In order to make the results of the global governance discourse accessible for the aims of this study, in chapter 3 they are further elaborated with particular respect to business legitimacy.

Not just the current crisis, but also the more comprehensive waves of global change (globalisation, tectonic power shifts) threaten the legitimacy of business as a social institution. Questions that have not been raised before are suddenly rampant: By whose grace are businesses doing what they do? By whose mandate are businesses shaping the world and the lives of many, sometimes in much more influential ways than states and governments? What is legitimate business in the global governance perspective?

While the legitimacy of businesses in the global spheres is a hitherto unsolved problem, it is further complicated by rapid global change: Globalisation fur-

thers the advancement of the global social division of labour, which in turn drives tendencies of fragmentation in the relation of businesses and societies. Some multinational corporations turn over more resources than are at the disposal of many state budgets. The relation between corporations and states is fairly unclear and questioned, for instance since the recent government bailouts of financial businesses in the wake of the global financial crisis.

However, the sites of direct interaction of varying forms of business legitimacy are not to be found in the political arenas where state actors meet, and neither in anonymous markets. Rather, varying forms of business legitimacy interact in global value chains, with the side condition of internal and external value chain governance (Gereffi / Humphrey / Sturgeon 2005, 79; Stamm et al. 2006, 37 ff.).<sup>28</sup> As China and India play an increasingly meaningful role in global affairs, they thus also do so in the global value chains. But what, for instance, is perceived as legitimate business in a value chain that is led by a Chinese multinational corporation?

This chapter looks into the question of what explanatory concepts exist for these questions. Which theories explain business legitimacy in a global governance frame of reference that is highly dynamic due to the massive impact of the Asian Drivers of Global Change?

In order to review and structure the relevant literature, it is useful to reconsider the dimensions of the research design, global capitalism and global change. These two perspectives on business legitimacy are assumed in chapters 3.1 and 3.2.

The synopsis in chapter 3.3 aggregates the two perspectives of institutional order and institutional change. Chapter 3.4 proposes interfaces between the synopsis of the explanatory constructs and the empirical research design.

### 3.1 Business legitimacy in the global capitalism dimension

First, from the global capitalism perspective, the phenomena that this research departed from are under scrutiny: evidently, present day global capitalism needs a discussion on ‘good business’ and ‘social responsibility’. This discussion is being critically reviewed in chapter 3.1.1. As a result of this review, it is argued that

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28 “*[T]wo dimensions of governance [...] have to be considered: the internal governance, which refers to agents within the chain, and external governance (...) which refers to agents outside the chain, who have the power to set rules and standards*” (Stamm et al. 2006, 36).

- the departure (3.1.1.1) of businesses from the overwhelmingly nation-state-confined institutional environments in globalisation necessitated a preoccupation with ‘good business’ policies and practices;
- hence, seemingly voluntary ‘good business’ issues in fact tackle vital questions of legitimacy (3.1.1.2) that businesses need to address in order to retain their license to operate;
- business legitimization efforts reduce transaction costs (3.1.1.3) in the under-institutionalised global business environments;
- transnational stakeholders (3.1.1.4) form the particular constituencies granting giving legitimacy to businesses.

Chapter 3.1.2 captures these insights in order to construct a viable model of business legitimacy for the purposes of this study. Business legitimacy from a transnational stakeholders’ point of view is being conceptualised in the RIPO model. The distinct OECD type of the RIPO of business legitimacy is being portrayed in chapter 3.1.3. Chapter 3.1.4 introduces explanatory models for divergence or convergence in the institutional arrangements that the different forms of ‘capitalisms’ may display.

### 3.1.1 Conclusions from the OECD-based ‘good business’ discussion

The discussion of what is to be understood as ‘good business’ – in the sense of doing business in consensus with the majority of the wider society – is as old as business itself and has been subject of various streams in the literature. One stream of literature, for instance, inquires on the religious foundations of mercantile activity. In the ‘western’ context, this inquiry is often associated with the works of Max Weber on the “Protestant Ethic and the Spirit of Capitalism” (Weber 2001). In a similar fashion, the Anglo-American tradition of business ethics is closely related to Puritan requirements on the lifestyle of businessmen (Frühschütz 2002). But religion also plays a role in the ‘eastern’ discussion, e.g. for the ‘Confucian Businessman’ (Ho 2006; Cheung / King 2004; China Kongzi 2001) or for Hindu (Sood / Arora 2006)<sup>29</sup> or Islamic (Mohammed 2007) backgrounds of ‘good business’.

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29 “[...] while religion’s influence has receded with corporate growth in the West, religion played, and continues to play, an important role in Indian business philanthropy. The concept of parting with a portion of one’s surplus wealth for the good of society, [...] is neither a modern nor a Western import into India” (Sood / Arora 2006).

The point of origin for this study, however, is the OECD-based discussion on ‘good business’. It is portrayed in the following chapters, whereby the relevant conclusions for the issues under observation in this study are extracted.

### 3.1.1.1 Review of the OECD-based ‘good business’ discussion

The current OECD-based discussion on ‘good business’ can clearly be traced back to the works from the Anglo-American ‘business and society’ tradition commonly associated with the term ‘Corporate Social Responsibility’, which was first mentioned in a scholarly context in 1967 by Clarence C. Walton (Walton 1967).

The basic thought for elaborating on the social responsibility of corporations is the “*unavoidable interconnectedness of companies in the society*” (Sachs 2000, 99, translation jw). To what extent interconnectedness means corporations taking responsibility, or rather state actors correcting the market results, however, is a function of prevalent state-market balances in different historical situations.

The ‘social issue’<sup>30</sup> concerning the welfare of a stratum of free labourers, whose subsistence is dependent on wage earning, historically emerges with early industrialisation. The end of the feudal production system meant the separation of worker from means of production.<sup>31</sup> The social question became an urgent one when the mass-pauperisation of the working class took hold of the emerging industrial zones of Europe. At the same time as the ‘social issue’, questions around the allocation of responsibilities to solve the problem emerged. The pauperisation of the working class in nineteenth century Germany aggravated to such an extent that the state eventually felt the need to intervene – in order to defuse the revolutionary potential of the social question – by means of the introduction of Bismarck’s

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30 The entry for “Soziale Frage” in Deutsches Staatslexikon [German state encyclopaedia] of 1911 is: “*The social question [...] is the question of the essence of, and the reasons for, the unsatisfactory economic condition of the lower classes in society, respectively individual professions as well as the question of the means for ameliorating the same in an economic, social and cultural respect*” (Bachem 1911, 1270, translation jw).

31 Karl Marx discussed this separation process – to which he accounted such “*idyllic momenta*” as the violent expulsion of the peasants from their land as well as forcing them to work in the emerging industries – under the term ‘primitive accumulation’ (‘*ursprüngliche Akkumulation*’) of the capitalistic mode of production. (Marx 1960, 779).

social legislation in the 1880s. At the same time, however, industrial companies extended their responsibilities towards workers by providing housing and other welfare measures.

As a lesson from the disruptive political potential of economic crises and mass pauperisation – as the antecedents of two world wars – the “*Rhenanian Capitalism*”<sup>32</sup> of post-war Germany incorporated various mechanisms to redistribute imbalanced market results. The German corporate sector in that period, however, confined itself to taking the rules and exercising moderate engagement with social issues.

Currently, as the more coordinated forms of continental-European capitalist institutional set-ups erode (Höpner 2001; Höpner 2003a; Höpner / Streeck 2003), the allocation of responsibility is once again at the top of the agenda of the political discourse. It is this specific historical situation, in which the CSR discussion breaks away from its earlier Anglo-Saxon confinements.

Since the 1950s, Anglo-American ‘Business and Society’ research has generated various frameworks for the relation between corporations and their social environment.<sup>33</sup>

Archie B. Carroll (Carroll 1979; 1991) defines Corporate Social Responsibility within a pyramid structure. At the base of the pyramid lies the ‘economic responsibility’ to be profitable, followed by the responsibility to obey the norms in society which are codified in law (‘legal responsibilities’). The next step comprises the additional responsibility, to respect norms not codified, but nevertheless socially sanctioned (‘ethical responsibilities’). The top of the pyramid is constituted by ‘philanthropic responsibilities’, which comprise the responsibility of voluntary engagement for society at large.

Donna J. Wood’s version of corporate social responsibility, however, is more restrictive towards companies, turning Carroll’s pyramid upside-down: “*The moral responsibilities of individual managers to make ethical choices are the most basic of CSR components, followed by the organisa-*

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32 As constituted by the “Ahlen Programm” of the Christian Democratic Party of 1947, containing ideas of ‘Ordoliberalism’ (according to Walter Eucken and politically implemented by Ludwig Erhard).

33 Cf. Sachs (2000, chapter 3): „Die Analyse der Problemstellung aufgrund der ‚Business and Society‘-Forschung“.



*tion's obligation to obey social and legal norms. If these CSR conditions are met, the company is then free to make profit"* (Sachs 2000, 97, translation jw).

These normative CSR approaches in the business and society literature find further variation in the 'Corporate Social Responsiveness' approach. From a more analytic perspective, this approach includes the public expectations towards corporations as well as the corporations' propensity to react. To act responsibly is not an end in itself but in the self-interest of the company, in order to sustain organisational survival through adjustment to its social environments.

The term 'Corporate Social Accountability' (CSA) has connotations of various elements of accountability towards stakeholders. In analogy to the accountability of listed corporations to its shareholders, companies should be held accountable to all other justified claims on behalf of society.

'Corporate Citizenship' demands of businesses to act as good citizens in the country in which they operate: *"The claim is that multinationals have at least implicit contracts to act in a morally decent manner in the countries and cities that allow them to do business. In return for the opportunity to exist and to do business, corporations, like ordinary citizens, have obligations to contribute to the well-being of the community"* (Werhane 2000, 294). In practice, however, it is difficult to walk the thin line between social engagement as a good corporate citizen and over-involvement. What, for instance, is a good corporate citizen in a 'rogue state' or in a failed state? There are numerous negative examples within the discussion on the adequate degree of corporate involvement (Werhane 2000; Bowie 2000; De George 2000) – too little engagement on the one hand, and too much on the other. In the case of South Africa's long lasting apartheid system, Financial institutions did nothing to undermine the system, and by lending to the government, they usually strengthened the government's policy of apartheid (De George 2000, 291).<sup>34</sup> Union Minière and ITT, in turn, were accused of over-engaging by assisting to overthrow governments (Bowie 2000, 472; see also Werhane 2000, 296). A very basic principle can be defined, nevertheless, when using Mary B. Andersons "Do No Harm" principle (Anderson 1999): Corporations should bring as many benefits to their host societies as possible while avoiding as much damage to them as possible (cf. De George 2000, 290).

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34 The article was first published in 1986.

An instrument of Corporate Social Accountability is social reporting. Similar to traditional reporting to business owners and similar to environmental reporting, companies report on processes along their interfaces with society. The development of common standards in reporting is enforced by global initiatives such as the World Business Council for Sustainable Development (WBCSD) or the Global Reporting Initiative (GRI). If indicators of the economic, environmental and social spheres are integrated, so-called ‘Triple Bottom Line Reports’ or sustainability reports are the result (see for example Deutsche Telekom 2007, etc).

The new global discussion on ‘good business’ had been preceded by the Anglo-American business and society debate, but soon developed characteristics that are distinct from it. In many instances, the discussion started with the contemporary, globalised version of the ‘social issue’: the rights of workers in developing country production sites delivering to industrialised countries.

Attempts to give justice to the claims of this group are more often subsumed under the heading social standards or labour standards.<sup>35</sup> The issue of social standards is a special case within CSR concepts, yet a very important one that drove on the discussion most vigorously. The discussion has been driven by reports of workers in special economic zones of the Philippines, in China or elsewhere, who died of inhumane working conditions (see annex 4). As the factories they worked for produced for OECD-based consumers, a normative discussion on just globalisation has been introduced to the earlier ‘business and society’ thinking as a result.

The discussion of social standards can be sketched according to three different historical lines: the UN-driven human rights-based process, the ILO process and the General Agreement on Tariffs and Trade (GATT)/WTO process.

*“From an international law perspective, social standards are part of the economic, social and cultural human rights”* (Windfuhr 2002, 12). The relevant human rights catalogue is the International Covenant on Economic, Social and Cultural Rights’ (ESC rights) of 1966 that defines labour rights in chapters 6 to 8. This covenant, however, was affected by the cold war.

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35 Social standards are defined as *“all agreements between employer and employee organisations, and legal provisions [...], that aim at the improvement of the situation of the workforce”* (Reichert 2002, 5, translation jw).

*“The Economic, Social and Cultural Human Rights had not been applied frequently due to the East-West confrontation; the West protected the political and civil rights – democracy, freedom of speech, freedom of press, etc – while the East and the Third World argued along the lines of the ESC rights [...]. For a long time they did not play any role but were then rediscovered in the nineties and thus influenced the discussion on social standards.”<sup>36</sup>*

A further thrust into the ‘good business’ discussion on behalf of the UN system was made by former UN Secretary-General Kofi Annan in a speech at the 1999 World Economic Forum in Davos.

*“Without your know-how and your resources, many of the objectives of the United Nations would remain elusive [...] I propose that you, the business leaders [...] and we, the United Nations, initiate a global compact of shared values and principles [...] Specifically, I call on you – individually through your firms, and collectively through your business associations – to embrace, support and enact a set of core values in the areas of human rights, labour standards and environmental practices”*  
(InWEnt / WBI 2008, 49 f.)

This speech entailed the founding of the UN Global Compact – a learning platform with the aim of approximating businesses to their duties to further sustainable development based on ten principles (Hamm et al. 2002, 6).

The ILO was founded in 1919 as part of the treaty of Versailles, long before the founding of the United Nations, of which the ILO now is a part. The ILO passed more than 180 recommendations and binding conventions. It is structured in a tri-partite way: Its committees are composed of representatives each of unions, employers and governments. In 1998, the ‘ILO-Declaration on Fundamental Principles and Rights at Work’ was passed, also known as the ‘ILO core labour standards’. These consist of the provisions of the following conventions (Windfuhr 2002, 14):

- *“Collective Bargaining: conventions 87 ‘Freedom of Association and Protection of the Right to Organise’ (1948) and 98 ‘Right to Organise and Collective Bargaining’ (1949)*
- *Non-Discrimination: conventions 100 ‘Equal Remuneration’ (1951) and 111 ‘Discrimination (Employment and Occupation)’ (1958)*

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36 Dr. Klaus Piepel (from Misereor Germany), in a personal conversation with the author.

- *Child Labour: conventions 138 ‘Minimum Age Convention’ (1973) and 182 ‘Worst Forms of Child Labour Convention’ (1999)*
- *Forced Labour: conventions 29 ‘Forced Labour Convention’ (1930) and 105 ‘Abolition of Forced Labour Convention’ (1957)’*

Whereas the number of ratifications of the conventions is remarkable, options for the ILO to enforce conventions are limited to publicising breaches.

The image of the ILO as a “*toothless tiger*” (Deutscher Bundestag 2003, 171; translation jw) repeatedly evoked discussions on aligning ILO conventions with trade policy instruments of the WTO (Deutscher Bundestag 2003, 173): The Havana Conference in 1946 with the Havana Charter adopted the foundation of the International Trade Organisation (ITO). Article 7 of the Charter explicitly demanded fair labour standards. But both charter and ITO failed to pass the ratification process in the US Congress. Instead of the ITO, the weaker GATT was adopted (Deutscher Bundestag 2003, 50). From GATT emerged the World Trade Organisation WTO at the conclusion of the Uruguay Round in 1995. The third ministerial conference of the WTO that took place in Seattle in 1999 put the issue back on the agenda after 50 years. Social standards, however, were discussed both openly and behind closed doors. In the streets, demonstrators blamed growing social inequality between the global North and South on the WTO (Windfuhr 2002, 8) and inflicted the ‘Battle of Seattle’. At the conference table, developing countries suspected new forms of trade barriers behind a façade of social standards claims on behalf of the industrialised countries. Mention of social standards by US President Clinton finally put the entire conference in peril (Reichert 2002, 11), and in the aftermath of Seattle the majority within the WTO gave up on the issue.

The events of Seattle clearly showed that social standards are closely linked to development politics. However, the discussion was all but new: shortly after imperial Germany had introduced Bismarck’s social laws, it convened a conference in Berlin in 1890 with the aim to internationally harmonise labour protection laws (Windfuhr 2002, 10). Already then, objections were raised that claimed that developing economies – such as the German economy at the time – would act to their own disadvantage if they enforced social standards. Developing economies have no interest in compromising comparative advantages<sup>37</sup> that stem from low social standards and low wages. Within deficient

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37 David Ricardo formulated the Theory of Competitive Advantages in 1817 in his “On the Principals of Economy and Taxation”.

regulative and rule-enforcement environments, however, ‘race-to-the-bottom dynamics’ become relevant.

*“Within a given industry, one firm, by way of policy may commence to commit what other citizens could look upon as a series of enormities. But if that firm, because of its policy, say, of dumping untreated wastes into rivers and acid particulates into the atmosphere, reduces its cost of production, the others must follow. The remedy, of course, is legislation and enforcement. But absent that remedy, the executives of the competing firm are choiceless: they too must pollute.”* (Michelman 2000, 441)

### 3.1.1.2 Trigger of the ‘good business’ discussion: The departure of businesses from nation state-confined frameworks of action

The ‘race to the bottom’ dilemma illustrates a basic trigger of the contemporary discussion on ‘good business’: as businesses globalise, they depart from the overwhelmingly nation state-confined frameworks of action. As e.g. German businesses enter global markets, they depart from the dense net of ‘rules of the game’ of the so far highly coordinated German market economy. In the global framework, they experience that mediating institutions such as collective bargaining provisions, universally enforceable contracts, courts, mitigation bodies etc. are not coordinating social issues. Compared to the nationally confined rules of the game, businesses now meet weaker institutional arrangements. The standard notion that market actors operate within frameworks which are established independently from them by government actors is not a realistic one for the global action frameworks (or: an even less realistic one than it had ever been for national economies).

As a result, businesses face the before-mentioned coordination dilemma: If they want to stay competitive in a deficient global institutional framework, e.g. regarding the social welfare of workers, they have to follow-race-to-the-bottom dynamics regarding purchase prices. As a consequence, the social standards situation of workers deteriorates – a situation that the businesses have repeatedly been given the blame for by civil society actors. If they opt not to follow the race, however, they face the risk that competitors still do so and will win in competition. These dynamics would not play out, if the institutional framework provided for a basic level of social standards that would establish a level playing field. On this level playing field, market actors would no longer be able to compete at the expense of social standards.

For each of the OECD economies, this level playing field had been readily established at the end of the 20th century. Subsequent tendencies towards the globalisation of the world economy, however, made OECD businesses depart from those nation state-confined frameworks of action. As a consequence, they found themselves involved in – but rather unprepared for – discussions on the social welfare of workers in developing countries. They responded to this by engaging in policies, norms and values within the ‘good business’ discourse.

### 3.1.1.3 ‘Good business’ as legitimate business beyond nation state-confined frameworks of action

Besides many other institutionalised practices that are intact within national economies, business also departed from the institutionalised patterns of business legitimisation: The global framework does not provide universally shared answers to the question of the role of businesses in societies. Nationally, this role is legally defined by corporate law, commercial law and the institution of corporate personhood, while continuously being re-defined in public deliberation. Therefore, up until the recent wave of globalisation came into effect, the discussion of the role of business in societies had been led at the margins of societies, if at all. In the global framework this has changed now. At the latest with the current global crisis, businesses’ legitimacy is subject to frequent contestations on behalf of the very mainstream of societal actors. In contrast to earlier times, businesses now actively have to seek their ‘social license to operate’.

Observations of brand capital, business images and the expectations of a newly networked global public can illuminate the case: The globalisation of production has been driven by technical standardisation, declining transport costs and by decreasing costs of – and increasing possibilities in – information and communication technologies (ICT) on the material side. On the intangible side, however brand value for marketing efforts has gained importance.<sup>38</sup>

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38 Brand capital prominently entered the stage when Phillip Morris bought Kraft Foods in 1988 for US\$ six billion, a price that was six times Kraft Foods’ asset value at the time. The difference between asset value and purchasing price marks the recognition of decades of marketing efforts Kraft had made. These were, for the first time ever, accounted for as investments in the brand (Klein 2002, 30).

Today, calculating brand value is common practice in the business world (bbdo Germany 2007; lifepr 2007; Ernst & Young 2007), to the effect that the subjective attitudes of market actors towards businesses have been made measurable. By this, ‘soft’ relational variables between business and the public effectively intruded on the rational calculations of businesses.

The parallel revolutions of globalisation and brand value, however, entailed that in many cases brand companies no longer produce material, but immaterial goods such as designs, images, brands and values. The production of the actual goods is a task that is accomplished by globally dispersed supplier factories.

At the same time, businesses are under the scrutiny of expectations that are being expressed by global media networks, consumers and civil society. One of the first instances in which it became apparent that these expectations have the potential to effectively sanction business behaviour were the dynamics around the intentions of Royal Dutch Shell to sink its oil platform ‘Brent Spar’ in 1996 (Sachs 2000, 363). Since then, many multinational companies had to back off from practices that global publics disapproved of after they had been exposed to them by local NGOs and investigative media over the internet. Without the latter, the same practices would not have come to the attention of these publics in first place.

Corporate scandals made businesses engage in problems that had earlier on not qualified as within the scope of their responsibilities. A case in point is a fire that broke out in the Chinese Zhili toy factory in 1993, killing 50 workers, due to insufficient safety measures. The public discussion led by NGOs and the media blamed the disaster on the Italian brand company Chicco, which sourced from Zhili.<sup>39</sup>

Nike, to cite another example, had been investing massively in its brand for decades. When the public learned in 1995 that Pakistani suppliers of Nike had employed child labourers to manufacture the footballs for EURO 1996, boycotts followed. Yet more severely, due to related bad publicity, Nike overnight lost a significant part of its brand investments.

Neither Chicco or Nike have been made legally responsible. However, the two formerly intangible variables ‘public expectations’ and ‘brand’ have

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39 Personal conversations with K. Piepel (Misereor, Germany) and A. Wong (Asia Monitor Resource Centre, Hong Kong SAR).

become intertwined, bringing about tangible results for businesses. Ever since, public expectations with the potential of turning into business risks have entered management decisions. Whereas at first, decisions were taken on a reactive and ad-hoc basis, 'contingency plans' were increasingly developed in order to swiftly manage situations, in which a risk for major scandals existed. The most sophisticated companies, however, engage in the 'social issue' proactively and systematically by way of issues management, in order to set up an early warning system for any extra-financial risks.

Other observations complement the aspect on brand value and public expectations. Decision-makers are themselves part of the public and thus bearers of the new quality of expectations towards businesses. Some business leaders that are most often to be found in family-owned businesses with religious backgrounds<sup>40</sup> promote ethical leadership. But ethical considerations also invade the decisions of actors in capital and insurance markets such as big institutional investors. For businesses, the 'financial reputation' (Ernst & Young 2007) in the capital markets can be a decisive factor for success. All other variables being the same, the investor decides to invest in the company that does *not* have a public scandal, in favour of the one that has, as scandals can justifiably be seen as a sign of bad (risk) management. In effect, there is a non-monetary premium on shares of companies that display 'good business' conduct.

To engage in the 'good business' discussion can therefore be regarded as an investment: in brand value, in reputation within capital, insurance and recruitment markets as much as in any other significant markets. Next to the race-to-the-bottom dynamics at the supplier end of the global value chains described earlier, there are also race-to-the-top dynamics at the lead firm end. Compelling reasons to engage in the CSR discussion stem from the international competition of image and from the pursuit to protect brand value. This competition makes proactive, globally operating businesses take up responsibility issues for which they have no formal legal obligation. This adoption of responsibility may seem voluntary in a framework of action where obligations are not being allocated directly. But it is a factual necessity whenever such obligations are allocated indirectly. Statements from business representatives illustrate this case:

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40 E.g. the large German shoe retailer Deichmann is well known for the owning family's engagement in catholic entrepreneur networks.



*“As a globally active company, [company name] cannot afford to ignore the broader impacts of its business practices. By institutionalising the social and environmental departments in 1997, we acted upon our knowledge of businesses’ responsibility towards society, towards the people producing our products and towards investors.”*

*“The establishment and implementation of a code of conduct are becoming a business ‘must’ in business. There are few large corporations which have not bound themselves by such rules.”* (Weikert 2003, 113 f., translation jw)

Businesses need to enjoy legitimacy in order to uphold stable and predictable exchange relations with its many exchange partners. A lack of legitimacy can translate into decreases of sales, stock price and brand value and increased friction with legal and regulatory institutions. CSR is therefore a necessary practice for businesses that have departed from the nation-state legitimacy frame of reference.

All these findings taken together mean that ‘good business’ necessarily has to be legitimate business – legitimate, at least in the eyes of those sub-sections of the global public that form part of the businesses’ particular constituency.

### 3.1.1.4 Transnational stakeholders as constituencies for businesses beyond nation state-confined legitimacy frameworks

A green paper of the European Commission defined Corporate Social Responsibility as *“a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”* (European Commission 2001, 8). This definition can be used for a narrower or wider collective of social groups, depending on the definition of the term ‘stakeholder’.

A very limited one refers to strict orientation towards shareholder value<sup>41</sup>. According to Milton Friedman, the most frequently cited apologist of shareholder value, *“in a free society, there is one, and only one, social responsibility of business – to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game”* (Friedman 2000, 237). This perspective conforms to the Principal-Agent-theoret-

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41 Shareholder value is added value by the corporation for its capital providers. It contains returns and share prices.

ical ideal in the neo-classics. It disapproves of the CSR 'doctrine' (Friedman 2000, 233) and strictly limits legitimate claims vis-à-vis the corporation to shareholders. As soon as the management (as the agent of the principal shareholder) allocates resources to activities that serve any purpose other than profit maximisation that would be tantamount to embezzlement. "*The corporate executive would be spending someone else's money for a general social interest*" (Friedman 2000, 234).

The Friedmanesque position (Werhane 2000, 295), however, nowadays is dismissed by the majority of thinkers in the field. Neither do decision-makers in businesses these days take on a narrow position on shareholder value, as his Brazilian Chief Executive Officer (CEO) notes: "*CEOs see themselves as brave and as risk takers, but they are usually very conservative (...). CEOs face huge challenges and have to be brave enough to move around the profit generation concept*" (InWent / WBI 2008, 57).<sup>42</sup>

Exclusive orientation to shareholder value would, for instance, allow businesses to operate under immoral conditions that are unacceptable for important groups in the businesses' social environment. "*So one would have been allowed to practice apartheid in South Africa, to discriminate against women in Saudi Arabia, not to hire Palestinian PLO members in Israel, use dangerous pesticides, or market untested drugs in some Third World countries where such products are not illegal*" (Werhane 2000, 294). The reality of global businesses has long shown that such behaviour is not feasible, even if it serves the shareholders' interest within the applicable rules of the game.

More thorough theories of the firm as an organisational formation thus put the shareholder orientation approach in relative terms. Capital ownership, some theorists argue, must not be confused with business ownership. "*Each factor in a firm is owned by somebody. The firm is just the set of contracts covering the way inputs are joined to create outputs and the way receipts from outputs are shared among inputs. In this 'nexus of contracts' perspective, ownership of the firm is an irrelevant concept*" (Cochran 2000, 243). In this light, capital owners are but one of the contracting parties in this nexus and more parties can be identified: "*Stakeholders are those groups who have a stake in or a claim on the firm. Specifically I include*

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42 André Mantovani, CEO, MTV Brazil and Head of Abril Group TV, at the 12th International Business Forum, 9 October, 2007.

*suppliers, customers, employees, stockholders, and the local community, as well as the management*” (Freeman 2000, 247). The stakeholder approach was first theoretically elaborated in Edward Freeman’s “Strategic Management – A Stakeholder Approach” (Freeman 1984) and has been further development by Freeman and others until today (Freeman 2004; Freeman / Wicks / Parmar 2004; Hansen / Bode / Moosmayer 2004; etc). The stakeholder theory constituted, on firm-theoretical grounds, the legitimacy of the claims of stakeholders other than the shareholders.

Table 3 displays one possible conceptualisation of stakeholder groups, here according to the contributions and claims (not exhaustive) that the stakeholder holds on the corporation (cf. to Goetz / Czynnemk 2002).

Using this concept of business ownership, and mindful of businesses’ globalised framework of action, the assumption of ‘corporate social responsibility’ for groups, to which businesses have no formal legal obligation, can be conceptualised; for instance, when going back to the example of social standards in factories in developing countries:

According to the stakeholder concept, workers in factories supplying to multinational corporations are identified as geographically disperse internal (if in subsidiaries), or market-related external (if in supplier companies) stakeholders of the company. Therefore, the Philippino and Chinese workers who died of over-work (see annex 4) as much as the Pakistani children that sewed footballs for Nike *were* in fact stakeholders of OECD-based businesses. It was as a result of the globalisation of production that more direct internal stakeholders – employees of companies – were replaced by more indirect market-based external stakeholders: the employees of companies in the supply chain.<sup>43</sup> In the course of the ‘outsourcing revolution’ (Corbett 2004), this happened on a massive scale.

Other stakeholders, e.g. the NGOs and media that reported of the cases of social standards violation to yet other set of stakeholders, such as the con-

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43 Note that while there is a direct and long-term (employment contract-based) relation within one jurisdiction in the former case, there is only an indirect legal relation across different jurisdictions between producer and brand company – weakly framed by a short-term supplier contract and the contract (if any) between the supplier factory and its employee – in the latter case. There are, of course, differing modes of cooperation between international buyers and local suppliers. But the prototype that drove the outsourcing revolution is the loose cooperation through short-term supplier contracts.

<b>Table 3: Stakeholder classification according to Goetz and Czymmek</b>		
	<b>Contribution to corporation</b>	<b>Claim on corporation</b>
<b>Internal stakeholder</b>		
Capital owner	<ul style="list-style-type: none"> <li>• equity capital</li> </ul>	<ul style="list-style-type: none"> <li>• interest return on capital</li> <li>• equity growth</li> <li>• co-determination</li> </ul>
Management	<ul style="list-style-type: none"> <li>• human resources</li> <li>• competencies</li> <li>• engagement etc</li> </ul>	<ul style="list-style-type: none"> <li>• income</li> <li>• power, influence, prestige</li> <li>• self-realisation</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• human resources</li> <li>• experience etc</li> </ul>	<ul style="list-style-type: none"> <li>• income</li> <li>• social security</li> <li>• advanced learning and skills training</li> <li>• good labour conditions</li> <li>• co-determination</li> </ul>
<b>Market-related external stakeholder</b>		
Foreign capital owner	<ul style="list-style-type: none"> <li>• foreign capital</li> </ul>	<ul style="list-style-type: none"> <li>• interest return on capital</li> <li>• low risk of investment</li> <li>• value growth investment</li> </ul>
Insurer	<ul style="list-style-type: none"> <li>• insurance</li> </ul>	<ul style="list-style-type: none"> <li>• measures to avoid damage events</li> <li>• low ‘moral hazard’</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• on-time provision of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>• stable and fair business relations</li> <li>• solvency for financial claims</li> <li>• on-time payment</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• purchase of products</li> <li>• brand loyalty</li> </ul>	<ul style="list-style-type: none"> <li>• favourable quality/cost ratio</li> <li>• service and support</li> <li>• convenient consumer credits</li> <li>• guarantee of goods &amp; service provision</li> </ul>
<b>Non-market-related external stakeholder</b>		
Authorities/state	<ul style="list-style-type: none"> <li>• provision of infrastructure</li> <li>• subsidies</li> <li>• legal security</li> </ul>	<ul style="list-style-type: none"> <li>• tax revenues</li> <li>• job creation and retention</li> <li>• compliance with law</li> </ul>
NGOs	<ul style="list-style-type: none"> <li>• external review of ecological or social weaknesses</li> </ul>	<ul style="list-style-type: none"> <li>• improvement of social and ecological performance</li> </ul>

Media	<ul style="list-style-type: none"> <li>• communication and opinion forming</li> </ul>	<ul style="list-style-type: none"> <li>• information provision</li> <li>• advertising revenue</li> </ul>
Community	<ul style="list-style-type: none"> <li>• good neighbourly relations</li> </ul>	<ul style="list-style-type: none"> <li>• no harm/contribution to community</li> </ul>
Source: Goetz / Czymek (2002, 21)		

sumers, hold sanctioning power over the legitimacy of such businesses. Hence, in the global framework of action, various stakeholders in the supply chain, in the relevant global publics and in relevant markets, spatially dispersed as they may be, form the constituency capable of granting or withholding legitimacy to businesses. If in the nation state framework of action, the relevant stakeholders were overwhelmingly to be found in one country and jurisdiction; the globalised businesses’ constituencies, in contrast, would be composed of transnational stakeholders.

It is important to mention that in the liberal view, in situations where there is congruence between electorate and territory, legitimacy of rule is granted exclusively by the electorate (Messner / Nuscheler 2003, 33; Baur 2006, 108). Constituencies that are composed of transnational actors do not occur. Business legitimacy must therefore be grasped in more discursive recognitions of legitimisation processes: The decisive feature for legitimacy in the discursive model lies in deliberative procedures (Benhabib 1992, 105). *“Legitimacy is achieved (...) primarily through public deliberation. Deliberation describes a process of opinion formation, in which initially diffuse preferences take shape and ultimately form into a well-reasoned political will”* (Baur 2006, 108; translation jw; emphasis added).

The ‘public’ is here conceived of as decoupled from a territory and as not necessarily identical with a given electorate: as there are no ‘prima facie’ rules, actors, as soon as they can justifiably indicate that they have a stake, become participants in the deliberation process (Baur 2006, 109). Thus it follows that constituencies can form irrespective of national confinements: The discourse model of legitimacy encompasses constituencies of *transnational stakeholders*.

The transfer of this concept to the task of identifying elements of business legitimacy can deliver plentiful results. Senders of legitimacy are now actors, who, first, are not appointed to the constituency by prima facie rules and second, not necessarily belong to the same nation state. The inclusion

through deliberative procedures of self-appointed, transnational stakeholders – as prevailing in constituencies of globalised businesses – reproduces business legitimacy.

### 3.1.2 Grasping business legitimacy from a transnational stakeholder perspective: The RIPO concept

The conclusions of reviewing the discussion on 'good business' are incorporated into an analytical concept of business legitimacy to be elaborated on here. These conclusions are: i) the 'good business' discussion has been triggered by the departure of businesses from their nation state-confined frameworks of action in the course of the recent wave of globalisation of production. ii) CSR, CR, Corporate Citizenship and other derivatives of the 'good business' discussion are manifestations of businesses' need for legitimacy beyond their nation state-confined frameworks of action. iii) Transnational stakeholders form the constituency that grants or withholds legitimacy to businesses beyond nation state-confined frameworks of action.

Business legitimacy is a currency that is being exchanged between business as a social institution and its constituency in the course of the interaction between them. But in what forms can this currency and its interchange be observed? How can business legitimacy be grasped analytically? And in which ways materialise the different forms of business legitimacy in the empirical world?

The government-centered legitimacy discussion in political science provides hints for the derivation of analytical business legitimacy concepts. According to the German philosopher and political scientist Dolf Sternberger, legitimacy "*is the foundation of such governmental power as is exercised both with a consciousness on the government's part that it has a right to govern and with some recognition by the governed of that right*" (Sternberger 1968, 244). Both governing and governed actors must have a belief in the rightfulness of governance: a legitimacy belief (Messner / Nuscheler 2003, 35). From the deficient global institutional framework mentioned before it becomes evident that businesses beyond the nation state framework of action can hardly develop such a consciousness of the rightfulness for their action. There is no institution in the global sphere that businesses could invoke to support a claim of

rightfulness. It follows from this, that the legitimacy belief on behalf of the constituencies of businesses – recognition of righteousness of business actions on behalf of transnational stakeholders – is a precarious one.

The example of brands and how brand value can be destroyed overnight by corporate scandals (see chapter 3.1.1.3) illustrates this precarious state of business legitimacy; and the current global economic crisis epitomises the lack of belief of global stakeholders in the social institution business.

If not by invoking global institutions, how then can businesses generate legitimacy belief for their actions? A further glimpse into the government-centered legitimacy discussion may be taken. In his work Fritz Scharpf has “*described these as ‘input-oriented’ and ‘output-oriented’ legitimising beliefs. Input-oriented democratic thought emphasises ‘government by the people’. Political choices are legitimate if and because they reflect the ‘will of the people’ – that is, if they can be derived from the authentic preferences of the members of a community. By contrast, the output perspective emphasises ‘government for the people’. Here, political choices are legitimate if and because they effectively promote the common welfare of the constituency in question*” (Scharpf 1999, 6).

The important key words when transferring concepts, here, are the reflection of preferences in the input perspective and common welfare of the constituency in the output perspective. In an allusion to Fritz Scharpf, one could now differentiate into business *by the people* (input legitimacy) and business *for the people* (output legitimacy).

Whereas the output perspective – the notion that businesses effectively promote common welfare of the constituency – is widely shared and can thus be directly transferred into an analytical concept of business legitimacy, the input perspective requires further elaboration.

For the input perspective, the question how the constituency of transnational stakeholders may possibly be represented and *included* into business action in order to develop a legitimacy belief, a classic reading in the legitimacy discourse provides a structure. Max Weber, in his analysis of legitimate rule, differentiates *traditional, charismatic and rational* (bureaucratic) rule as the three ideal-typical forms of legitimate rule. Thereby, traditional rule rests on the authority and holiness of principles, charismatic rule on the popular belief in, and affection towards, the

extraordinary qualities of those executing power and rational rule on sets of norms and rules (cf. Weber 1922, Kap. III. 1, §2).<sup>44</sup>

In the following, three input-oriented elements and one output-oriented element of business legitimacy are identified and introduced with reference to the government-centered legitimacy discourse.

### 3.1.2.1 R – stakeholder inclusion with reference to role models

Traditional rule rests upon the authority of principles. Whereas Max Weber referred to principles such as the ‘divine right’ of monarchic rule in the European feudal system, a transfer of the concept of traditional rule to this topic can be made: If certain principles or *role models* enjoy authority among their stakeholders, businesses who associate themselves with these, ‘borrow’ from the principles’ or role models’ authority, thereby sourcing legitimacy.

Unfortunately, there is no ideal translation for the German term ‘Leitbild’, which would be an accurate label for this element of business legitimacy. Whereas ‘Leitbild’ conveys elements of ‘general principle’, ‘action-guiding principle’, ‘mission’ or ‘motto’, an actor-centered view translates the term with ‘cognitive framework’. Hiß, in the perspective of the ‘new sociological institutionalism’, associates ‘Leitbild’ with ‘myth’, as e.g. used in ‘founding myth’ (Hiß 2005, 222). For practical reasons, the English term ‘role model’ will be used here. Whereas the term ‘role model’ in its general use does not sufficiently convey this context of ‘Leitbild’, it is defined *within* this context for its special use in the frame of this study.

Businesses associate with role models through business policies such as mission or visions statements, CEO’s messages, board communications or any other form of communication that is directed towards the stakeholders.

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44 The rational rule concept in this study is an extraordinary one: as seen, comprehensive forms of *rational rule* are absent in the globalized context. These would require norm-setting and norm-enforcing institutions with global mandates. The absence of global institutions is in fact one starting point of global governance thinking: in 1980 already, the report “*A Programme for Survival*” of the North-South Commission (“Brandt Commission”) postulated that global problems could only be tackled if politics are globalized or if there are ‘world internal politics’ (Messner / Nuscheler 2003, 35). However norms and rules, the precondition of rational rule, are only emerging in the global governance architecture (Messner / Nuscheler 2003, 36) and are not yet functional to provide for business legitimacy.



If the value content of the role model is conveyed successfully, then the stakeholders are included normatively and the businesses' legitimacy is fortified.

Examples for role models are the “social market economy” (a common term until today for the post-war German political economy) and “Sustainable Development”; or “Socialism with Chinese Characteristics”, “People-centered Development” and “Harmonious Society” – to cite often-used Chinese examples.

More often, role models are established or endorsed by persons enjoying moral authority. These are referred to when businesses communicate role models, borrowing from the moral authority of these persons. For instance, businesses which refer to the principles of the United Nation's Global Compact not only charge from the legitimacy of the United Nations', but equally so from the moral authority and integrity widely attested to former UN Secretary-General and founder of the Global Compact, Kofi Annan.

Whereas businesses get around the need of developing own positions on issues which might prove relevant to the stakeholders by subscribing to outside role models, they can soon be called upon and held accountable to the role models they subscribed to whenever discrepancies between the commitments made and the reality of the businesses' conduct surface. For instance, businesses that are listed on the UN Global Compact but are found to have dubious track records with regard to its implementation are regularly accused of “blue-washing” by campaigners. This way, business legitimacy, which had been attained through references to role models, may eventually dissolve again by the same reference made on behalf of stakeholders.

### 3.1.2.2 I – ideational stakeholder inclusion

The transfer of Max Weber's charismatic rule concept equally delivers fruitful results for the task of identifying forms of business legitimacy. Stakeholders can believe in, and hence be affected by, extraordinary qualities ascribed to the corporation, e.g. if they develop ‘charismatic’ brands’. If this is the case, stakeholders grant give legitimacy because of attractive images, ideas and attitudes associated with the business thanks to the businesses' communication efforts. This communication can include such diverse themes as positive life-styles, reliability or loyalties to national, cultural or even religious affiliations.

The stakeholders are thus *ideationally* included in the businesses' action. In contrast to inclusion by role models, ideational stakeholder inclusion does not refer to external authorities, but to the direct ideational relationship established between the business and its stakeholders.

Since the parallel revolutions of outsourcing and brand value (see 3.1.1.3), businesses try to use mechanisms of ideational stakeholder inclusion for legitimising their action by establishing attractive images and positively-charged brands through public relation strategies. The stakeholders that are sought to be thus included are foremost the consumers in retail markets. But charismatic brands also affect other stakeholders – for instance those in capital markets, when private equity is widely held not only by professional, but also lay investors.

Examples for businesses that have successfully generated 'believers' in the extraordinary qualities of the brands are, e.g. Apple Macintosh, whose personal computer branch survived thanks to a comparatively small but well-to-do and highly persuaded user community; or the sports company Puma, which rose again from close-to insignificance to a leading sports gear brand through its pronounced life-style image campaign in the 1990s.

However, business legitimacy through ideational inclusion of stakeholders can prove as ephemeral as the one attained from role models. If media, NGOs or Internet bloggers associate negative images and attitudes with the business that contrast with normative content of the brand, stakeholders can lose their belief. Through bad publicity, businesses can lose a very significant part of their brand investments – and legitimacy – overnight. This is particularly true whenever business legitimacy melts as a consequence, for instance, of the recent global economic crisis, for which major parts of the blame go to the business world. *"Talking past problems with slick advertisements was getting harder before the meltdown; now it's virtually impossible"* (Frost 2009).

### 3.1.2.3 P – procedural stakeholder inclusion

The concept of rational rule according to Max Weber requires some commentary before it can be transferred to the issue of business legitimacy: comprehensive forms of *rational rule* are absent in the globalised context – this is in fact one starting point of the discussion 'good business'. If there already were rules (furnished with global legitimacy) that depicted 'corpo-

rate responsibilities', businesses would not have to worry about discussing them. A compliance model comparable to the nation state-confined model could then be imagined. But there is no comprehensive rational rule in place; instead, global governance is a result of poly-actor, poly-level and poly-form governance processes (see introduction to chapter 3).

Nevertheless, forms of proto-institutional set-ups can be observed in businesses' globalised framework of action: One more way of including the constituency is thus to aim for the alignment of stakeholders with the businesses' goals by means of regular forms of interest arbitration procedures. Procedural stakeholder inclusion may happen through dialogue, community involvement or co-determination on strategic decisions. The stakeholders then grants legitimacy, if its interests are accounted for as a result of discursive processes that are accompanied by disclosure of information, transparency and opening up alleyways for participation in decision-making processes.

In the "nexus of contracts" view of the firm (Cochran 2000, 243; see chapter 2.1.1.4), procedurally including the stakeholders can be seen as an arbitration process that balances the interests of the multitude of implicit and explicit contractors to the business. Procedural stakeholder inclusion encompasses the continuous discursive procedures of businesses with its stakeholder networks, by which business legitimacy is being reproduced. It can take on such different forms as shareholders meetings and voting, press conferences, government lobbying activities, multi-stakeholder processes, cross-sector partnerships, community involvement, co-determination of employees and many more.

When measuring this form of stakeholder inclusion, varying degrees of participation have to be accounted for. Evidently, the legitimacy base becomes broader, the wider the range of acknowledged and procedurally included stakeholders is.<sup>45</sup> Likewise, disproportionate dominance of certain stakeholders over others can diminish legitimacy. For example if certain stakeholders' preferences are overruled, they may withdraw their support. This can be observed, e.g. with the secular trend of increased orientation towards

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45 Please note that this does not mean to allow just anybody to participate. The analytical term 'stakeholders' presupposes that these have a justified claim on the business. The analytical optimum is therefore to include all stakeholders. For this reason it is not necessary to talk of 'legitimate stakeholders' – as is sometimes done in this debate.

shareholder value of businesses in former coordinated market economies (Höpner 2001) or the tendency of Chinese businesses to give priority to governmental stakeholders.

#### 3.1.2.4 O – output legitimacy

Besides the three elements of input legitimacy representing the notion of ‘business *by* the people’, output legitimacy transports the idea of ‘business *for* the people’.

The ability to act and to solve problems is one precondition for legitimacy of political systems (Messner / Nuscheler 2003, 36 f.). The same can be said of businesses: successful problem solving is a further source of business legitimacy on the output side of perspectives. The nature of problems, and suitable indicators to measure success in solving them, is often stipulated in the businesses’ management objectives. Legitimacy belief is therefore attained when credibly reporting the business results to the stakeholders with regard to operational (financial and non-financial) aspects.

However, economic output is not a sufficient condition for business legitimacy. The end of business activity alone does not justify the means by which this social institution operates. This can be observed in those cases where economic success is in conflict with social or environmental output. To cite the example of Deutsche Bank, achieving ambitious rate of return goals might not necessarily further the social license to operate, if simultaneously – or as a precondition thereof – jobs are cut. Consequently, output legitimacy refers to not only the ability of businesses to solve economic problems, but increasingly to tackle more comprehensive challenges in the businesses’ social and environmental spheres of action.

The output legitimacy element completes the R-I-P-O model. In order to review their applicability, the identified elements of business legitimacy can be mapped with the analytical categories, as has been done in table 1 of chapter 2.1.5.1).

#### 3.1.3 The OECD RIPO-type (O)

The RIPO model can now be utilised in the empirical part of this study. Measuring the Asian Business Drivers strategies for business legitimisation, however, requires a benchmark to measure them against. As has been

pointed out before, the OECD counterpart provides this benchmark. In order to reap the distinct OECD type (O) to be used as a benchmark in the empirical survey, some constituent features of the thus-far OECD-led debate are distilled in the analytic RIPO model. References for the (O) type are, as introduced in chapter 1.2.2, the OECD Guidelines for Multinational Enterprises (OECD 2000), eventually complemented by other OECD-borne policies and the concepts contained therein.

The most unambiguously embraced *role model* in the OECD world, against which the variable (A) can be benchmarked, is ‘sustainable development’<sup>46</sup>. First derived from forestry, the concept entered the discussion by way of the report of the World Commission on Environment and Development (WCED 1987) and the Rio Conference on Environment and Development in 1992. Ever since, the OECD-led discussion on ‘good business’ adopted variations and derivatives of ‘sustainable development’ as role models (World Business Council for Sustainable Development 2003): The “*shared values*” of the OECD countries, which have accumulated in the OECD Guidelines for Multinational Enterprises, encompass “*the economic, social and environmental elements of the sustainable development agenda*” (OECD 2000, 5). The Global Reporting Initiative’s<sup>47</sup> G3 Guidelines – which equally emerged from the OECD-led dialogue on good business – likewise name ‘sustainable development’ as their cornerstone (GRI 2006, 2).

Moral authorities commonly associated with this role model discussion are persons or institutions such as Gro Harlem Brundtland, Chair of the former World Commission on Environment and Development; the Global Compact and its founder Kofi Annan; the World Business Council for Sustainable Development and its founder Stephan Schmidheiny.

Of the *OECD benchmark (O) for role models* it can thus be said: i) Role models staged in the OECD-led discussion on ‘good business’, such as ‘sustainable development’ and variations thereof are associated with through businesses’ policies and communication to stakeholders. ii) Moral authorities or institutions promoting sustainable development concepts and

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46 The goal of sustainable development is to “*meet the needs of the present without compromising the ability of future generations to meet their own needs*” (WCED 1987, 43).

47 The GRI was formed by the non-profits Ceres (formerly the Coalition for environmentally Responsible Economies) and Tellus Institute, based in the United States, with the support of the United Nations Environment Programme (UNEP) in 1997.

variations thereof are associated with through businesses' policies and communication to stakeholders.

The OECD discussion on 'good business' is broadly framed *beyond* national loyalties. Important features of the discussion, such as the OECD Guidelines *for Multinational Enterprises*, emerged from the very fact that corporations operate beyond nation state-confined frameworks of action. Therefore, brands, images and the pursuit of reputation are usually directed towards transnational stakeholders, so that *ideationally including stakeholders*, e.g. through brand communication, is rarely restricted to national stakeholders of home markets. Efforts to increase the businesses' reputation beyond consumer markets are likewise extended to transnational stakeholders.

Among the many forms of interaction with society, philanthropy is of declining importance in the OECD-led 'good business' debate. Philanthropy is not deemed to have sustainable impact; in many occasions, singular donations can even be exposed by stakeholders as mere 'window dressing' – thus diminishing legitimacy (Weikert 2003, 103). In contrast to this, a 'core business case' geared towards social goals is being discussed (InWEnt / WBI 2006, 18<sup>48</sup>), to the effect that branding and reputation strategies move further away from philanthropy and closer towards an interest-led approach (Weikert / Petkoski / Ramalho 2008, 4). Accordingly, the G3 Guidelines and the OECD Guidelines, respectively, only mention donations and philanthropy as included in overall economic value generated (GRI 2006, 26), or not at all.

For the *OECD benchmark (O) for ideational stakeholder inclusion*, it can thus be said: i) Building up brand value (with consumers) is framed beyond national concerns, emphasising a core business case. ii) Building up reputation (with other stakeholders) is framed beyond national concerns, emphasising a core business case.

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48 "UNDP and the UN are very committed to the corporate social responsibility agenda. But we are really interested in the core business case for reaching the poor. Because that is the only way that you go to scale, that is the only concept that has the ambition that will enable you to reach the MDGs. Everything else is nice, is attractive, we can support it but it's not going to get you there." Bruce Jenks, Assistant Administrator and Director, Bureau for Resources and Strategic Partnerships, UNDP (InWEnt 2006, 18).

In the thus-far OECD-led ‘good business’ discourse, the governmental stakeholders’ role has been discussed as a declining one, because businesses have organised themselves in transnational frameworks of action, in which nation state-confined government actors have limited competencies. This has implications for the *procedural inclusion of stakeholders*, because simultaneously, as a result of liberal market philosophies gaining ground, shareholders of businesses have acquired a *dominant role* among the various stakeholders (Höpner 2003a, Höpner 2003b, Höpner / Streeck 2003).

However, a rather *wide range* of stakeholders is assumed nowadays. OECD-based businesses had during the past decades gathered sufficient experience with the sanctioning power of non-market stakeholders (the ‘Brent Spar’ incidents is a milestone for this, see chapter 3.1.1.3) to acknowledge them, and to try to include them in decision-making processes. GRI’s G3 Guidelines therefore propose inclusiveness through multi-stakeholder processes (GRI 2006, 24); the OECD guidelines suggest the co-operation between governments and enterprises to be enriched by a wide range of additional stakeholders (OECD 2000, 41).

For the *OECD benchmark (O) for procedural stakeholder inclusion*, it can thus be said: Within a rather wide range of stakeholders, shareholders are the most important.

Finally, the *raison d’être* of businesses in OECD-based discussions on ‘good business’ is not restricted to economic output such as products, growth, innovation, employment etc. There is a recognition, that mere economic *output* falls short of satisfying stakeholders’ demands on businesses’ problem-solving capacities, and therefore on generating legitimacy belief amongst them. In the OECD-led debate, the provision of environmental output such as climate protection goals (InWEnt / WBI 2008) and output for non-market stakeholders such as achieving social development goals (InWEnt / WBI 2006; 2007) have been emphasised. Alongside economic output variables, the OECD Guidelines stress for instance the contribution of businesses to environmental protection (OECD 2000, 22), fighting against corruption (OECD 2000, 24) and for consumer interests (OECD 2000, 25).

For the *OECD benchmark (O) for output legitimacy*, it can thus be said: Social and environmental output is important for legitimising business action.

Table 4 gives an overview of thus developed OECD RIPO-types.

**Table 4: Overview of the OECD RIPO-type**

RIPO model		Description	OECD benchmark
<b>R</b> Role models	Role model communication	Mention of role models in business policies or any form of communication	Role models staged in the OECD-led discussion on ‘good business’ such as ‘sustainable development’ and variations thereof are associated with through businesses’ policies and communication to stakeholders
	Authority, institution	Reference to role model emitting moral authority or institution	Moral authorities or institutions promoting sustainable development concepts and variations thereof are associated with through businesses’ policies and communication to stakeholders
<b>I</b> Ideational stakeholder inclusion	Image	Winning over consumers’ attraction to the businesses through image and brands	Building brand value (with consumers) is framed beyond national concerns, emphasising a core business case
	Reputation	Winning over other stakeholders’ attraction to the businesses through reputation	Building reputation (with other stakeholders) is framed beyond national concerns, emphasising a core business case
<b>P</b> Procedural stakeholder inclusion	Range	Range of acknowledged stakeholders, including internal, external, market- or non-market-related	Within a rather wide range of stakeholders, shareholders are the most important to be included in procedures
	Dominance	Prioritisation of acknowledged stakeholders	
<b>O</b> Output	Output	Restricting to or going beyond economic output legitimacy	Social and environmental output is crucial for legitimising business action

Source: Own design



### 3.1.4 Asian Business Drivers: Diverging from or aligning with the OECD RIPO-type?

The OECD type (O) has been characterised as a benchmark against which to measure variance to the Asian Business Drivers' legitimisation efforts. For each RIPO element, the coordinates for the O-type have been approximated. From the assumption that the (O) type and the (A) type diverge (see chapter 2.1.4.1), it follows that the (A) type displays varied coordinates for each RIPO element. Between each set of O-A features, a scale opens up, along which varying forms of business legitimisation can be conceptualised (see fig. 4 in 2.1.4.1).

Before the empirical parts of this study commence measuring degrees of variance, theoretical considerations are in order: if divergence is observed, what are the determinants for each the OECD type and the Asian Drivers type? This question will be approached in chapter 3.1.4.1 with reference to the 'varieties of capitalisms' school and its concept of 'institutional complementarities'.

As discussed in chapter 3.1.4.2, however, the literature also provides clues to the opposite notion: References to transaction cost theory provide grounds on which to argue that the (O) type and the (A) type are converging, rather than diverging. These thoughts will shortly be introduced to inform a scenario in which convergence *or* alignment is described by the literature.

#### 3.1.4.1 Arguments for divergence: Varieties of capitalisms

Departing from the initial conclusion that "*capitalism can no longer be studied as a whole*" (Höpner 2003a, 21), the authors in political science whose works can be subsumed under the heading varieties of capitalisms (VoC), research different capitalist production systems in a comparative way. While there has been a conflux of thinking from different authors in the VoC literature, the works cited most often are those of Wolfgang Streeck (Streeck 1992), David Soskice (Soskice 1990; 1999) and Peter Hall (Hall / Soskice 2001; Hall / Gingerich 2004).

These authors scrutinise production systems as configurations of institutional arrangements at the national level. As there are significantly different configurations that can be identified through empirical research – such as

the Anglo-American or the continental European – the initial aim of the VoC literature is to determine common success factors of varying capitalisms.<sup>49</sup> Within the institutional configurations under observation, distinct inter-locked sub-spheres and the interaction between them are examined. The crucial assumption is that different successful institutional configurations may vary considerably when comparing specific sub-spheres; but the sub-spheres *within* one successful configuration are balanced against each other (Höpner 2001, 6). Those systems are most successful, which are overwhelmingly coordinated through strategic interaction throughout the sub-spheres *or* those, which overwhelmingly *are not*, relying on arms-length coordination in markets (Höpner 2003b, 23). Less successful are intermediate forms, because they lack system-wide coherence or “institutional complementarities” – to use the key term coined by David Soskice – between the sub-spheres.

*“Although instances of market and strategic coordination occur in all capitalist economies, this approach contends that, in the spheres central to firm endeavor, the balance between these two types of coordination varies across political economies. At one end of the spectrum stand liberal market economies (LMEs) where relations between firms and other actors are coordinated primarily by competitive markets. At the other end are coordinated market economies (CMEs) where firms typically engage in more strategic interaction with trade unions, suppliers of finance, and other actors”* (Hall / Gingerich 2004, 8).

The concept of complementarities therefore means that the potential efficiency of a given configuration increases, whenever the sub-sets of the configuration are thus aligned and fine-tuned so as to mutually reinforce one another (Höpner 2003b, 25). One set of institutional practices can be said to be complementary to another whenever each set raises the returns available from the other (Hall / Gingerich 2004, 22).

For example, in-house training systems that draw on the resources of businesses only then contribute to the overall success of the economy, if long-term employment and low job turnover rates are the norm. Because only in this case, if higher qualifications of the work force are paying-off for the own company, employers are willing to invest in training of employees. If the job turnover is high, then employers are not willing to invest in on-the-job-training and training systems outside the companies will prevail. Both,

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49 This aim adheres to a “*most different situation – most similar outcome*” research design.

high engagement in in-house training and low job turnover rate or, conversely, low engagement in in-house training and high job turnover rates are identified as complementary institutional settings. Mixed forms (e.g. high engagement in in-house training and high job turnover rate), however, lower the efficiency of companies and therefore of the overall system of the economy.

Besides job turnover and training systems, Hall and Gingerich identify further sub-spheres of political economies which display further multi-directional complementarities, such as the social security system, which is the product market regulation, inter-firm relations, managerial prerogative and company strategy (Hall / Gingerich 2004, 19).

Now, the way in which businesses obtain social legitimacy can be understood as another set of institutionalised practices in capitalist production systems. As has been observed, the acquisition and maintenance of legitimacy is an imperative accomplishment for businesses as central actors of capitalist production systems. And arguably, there were – before tendencies of convergence towards more liberal practices took effect (Höpner 2001; Streeck / Höpner 2003; Höpner 2003b; Hall / Gingerich 2004) – observable varieties in the acquisition of business legitimacy between more coordinated and more liberal market economies: in CMEs, typically, multiple reciprocity relations between business, unions, state, finance and interest group were the norm, e.g. through mutual representation in supervisory boards and entanglement of ownership between the systems. The German economy before the 1990 provided a good example for these kinds of interweaved political economies and has therefore been conclusively characterised as “*Deutschland AG*” (“*Germany Inc*”; Streeck / Höpner 2003). It is noteworthy, however, that in such a system of interdependence, a large share of stakeholders is already *procedurally included in the businesses’ operations*, thus providing for business legitimacy.

In LMEs, in contrast, the level of interdependence and thus the need for strategic interaction between the systems is lower, as coordination between the systems is predominantly entrusted to markets, with market supervisory institutions securing the functionality of market coordination. Then, however, the mutual legitimisation of stakeholders through procedural inclusion is not institutionalised and other forms of acquiring legitimacy have to be found. It is therefore no coincidence that the discussion on the social responsibilities of corporations (including academic research on ‘business

and society’ issues; see chapter 3.1.1) has been existent in the Anglo-Saxon world at least since the 1960s,<sup>50</sup> however remaining largely unknown in CMEs. In CMEs, the discussion on ‘good business’ only has arrived recently: simultaneously with tendencies of disentanglement of the political economy and convergence towards the institutionalised practices of LMEs. Martin Höpner, who has worked extensively on the transformation of CMEs, such as the “*liquidation of the Deutschland AG*” (Streeck / Höpner 2003), argues: “Up to now, one did not need the CSR theatre [in CMEs; jw], because one had been, according to all power relations, stakeholder-oriented already. Shareholder-oriented capitalism, in turn, has to make more ambitious legitimisation efforts, as it is ‘naked evil capitalism’. Arguably then, CSR is a complementary practice” (E14/40).

Furthermore, with reference to the complementarities logic of the VoC literature it can be stated, first, that business legitimisation practices – if they are to be successful – must be *complementary* to prevailing institutional practices in the overall configuration; and second, that therefore, business legitimisation practices work differently for different arrangements of economic institutions. As seen, they worked out differently for CMEs and LMEs. It can be expected that they work differently even more so for newly emerging capitalisms – like those of the Asian Drivers’.

Taking the variance of the Chinese institutional configuration into account, the importance for the VoC literature for the purposes of this study can be summed up as follows:

As the institutional configuration of the Asian Drivers are varied from the political economies in the OECD world, and as the acquisition of business legitimacy can be grasped as an institutionalised behaviour in capitalist production systems that necessarily has to be complementary to other sub-systems in the institutional configuration, then the Asian Business Drivers’ acquisition and retention of legitimacy (A) varies significantly from OECD business actors’ (O). Variations between (A) and (O) are to be expected.

The explanatory power of the VoC approach is, however, compromised by the fact that conclusions from the VoC approaches have hitherto only been applied to the comparison between different types of economies *within* the

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50 “Corporate Social Responsibility” was first academically mentioned by the American Clarence C. Walton in 1967 (Walton 1967).

OECD world. Furthermore, they have not been applied to forms of transnational industrial organisation, as occurring in global value chains.

### 3.1.4.2 Arguments for convergence: Transaction costs

In view of the New Institutional Economics,<sup>51</sup> the costs of preparing, implementing and monitoring economic exchange can be grasped as transaction costs. Transaction costs theories work well within the transnational context, giving them some argumentative advantage over the VoC approaches. The chain of institutionalist arguments supporting the opposite to the variation assumption – convergence of forms of business legitimacy – is as follows:

Human limitations of perception and procession of information mean that exhaustive contracts, including provisions for any contingency in the fulfillment of the terms, can never be designed (Williamson 1990, 57). This, together with the assumption of opportunistic behaviour, i.e. actors making use of asymmetric information in order to pursue own interests, if necessary by means of fraud (Williamson 1990, 54) – makes monitoring of transactions necessary, thereby incurring transaction cost.

Already in 1937, Ronald H. Coase found that the neoclassical model needed to be amended: “*There is a cost of using the price mechanism*” (Coase 1937, 390). These costs occur because of uncertainty about the behaviour of other market actors, including the contracted partner, and are a function of the institutional environment of the transaction.

Douglass North explains this as follows:

*“It takes resources to define and enforce exchange agreements. Even if everyone had the same objective function (like maximising the firm’s profits), transacting would take substantial resources. In the context of individual wealth-maximising behaviour and asymmetric information about the valuable attributes of what is being exchanged (or the performance of agents), however, transaction costs are a critical determinant of economic performance. Institutions and the effectiveness of enforcement (...)*

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51 “*The New Institutional Economics try (principally within the frame of the neo-classic model) to determine those rules, conventions, norms and structures, which form the behaviour of economic subjects, particularly businesses*” (Eßer et al. 2000, 149, translation jw). In the following I will refer to the works of Ronald Coase (Coase 1937), the 2009 Nobel laureate in economics Oliver E. Williamson (Williamson 1990) and Douglass C. North (North 2000).

*determine the cost of transacting. Effective institutions raise the benefits of cooperative solutions or the costs of defection, to use game theoretic terminology. In transaction cost terms, institutions reduce transaction and production costs per exchange so that the potential gains from trade are realisable. Both political and economic institutions are essential parts of an effective institutional matrix” (North 2000, 16).*

In the light of institutional perspectives and transaction costs in particular, the question why businesses restrain themselves by self-imposed definitions of their ‘Corporate social responsibility’ and their ways of doing ‘good business’ can be answered: businesses establish rules and norms in their formerly unstructured transnational framework of action in order to replace uncertainty with calculable risk: The risk of being wrong in what the transnational stakeholders – the businesses’ sanctioning constituencies – deem to be ‘good business’. The communication and promotion of CSR policies can be understood as the efforts of businesses to construct a proto-institutional framework in the global sphere in order to diminish uncertainty and thus transaction costs.

Diverging and contradicting rules of business legitimisation, however, thwart the pursuit of decreasing transaction costs. Within the logic of individual wealth-maximising behaviour and asymmetric information, the convergence of rules – not their divergence – reduces transaction costs.

From the transaction cost-conscious, rational actor perspective, a sustained prevalence of significantly varying Asian Business Drivers models of business legitimacy that do not connect to the OECD models, thus seems unlikely. Therefore, rather than the variation assumption, its opposite – the alignment of the Asian Business Drivers models and the OECD – can be expected.

From the previous two chapters, it follows that the pertinent literature leaves the issue of alignment or variation undecided. Therefore, empirical ways of exploring the issue are called for.

### 3.2 Business legitimacy in the global change dimension

Dirk Messner identifies three waves of change as part of a comprehensive ‘great global transformation’ until 2050 (Messner 2007a). The first wave of change is driven by the politico-economic dynamics of globalisation after the bi-polar world order came to an end in 1989. The second wave of global

change is believed to bring about considerable power shifts in the global governance architecture. Among the rising middle-income countries that are recently being included in arenas of global economic governance (such as the G20), particularly China and India build up significant bargaining power. The third wave is undetermined: Depending on the policy choices that lie immediately ahead, it will either evoke de-stabilised and multi-polar patterns in the global arena, or lay the foundations of a de-carbonised global economy.

When looking at business legitimacy in the global change dimension, the implications of the first and second waves of global transformation on the research object are of interest: chapter 3.2.1 elaborates on the implications of globalisation dynamics on advances in the social division of labour. Whereas the global value chains are identified as the institutional sites in which the interaction on business legitimacy takes place (in chapter 3.2.1.1), globalisation further advances the social division of labour, aggravating the business legitimacy challenge and eventually creating ‘anomic’ (rule-less) situations (chapter 3.2.1.2).

Chapter 3.2.2 includes the ‘Asian Drivers of Global Change’ in the perspective on business legitimacy. For the question of how ‘good business’ will be defined in the future, the evolving bargaining power of Asian *Business* Drivers deserves particular attention (3.2.2.1), whereas *soft power* becomes a relevant concept (3.2.2.2). If the assumption is correct that governance patterns shift in favour of the Asian Drivers not only in global political arenas but also in the value chains, then the results of the interaction of varying forms of business legitimisation become less determined than until hitherto, when OECD actors and policies dominated the global debate.

### 3.2.1 First wave of global change: types of business legitimacy interacting in globalisation

#### 3.2.1.1 Global value chains as sites where transnational stakeholders negotiate the terms of legitimate business

In the context of the global governance discourse, *private global governance* (Messner 2002, 20; Pattberg 2005) includes the roles that private actors play for the reproduction of global rule systems. “*The term private governance (...) emphasises the role of private actors, both profit and non-profit, in the establishment and maintenance of issue-specific transnational*

*rule systems in contrast to either private agenda setting and lobbying or international rule making. Therefore, private governance could be understood as a functional equivalent to public forms of global governance involving states and intergovernmental institutions”* (Pattberg 2005, 592).

The institutional locations within which forms of private governance play out are the global value chains. Theories of global value chain observe forms of “*cross-border industrial organisation*” (Gereffi / Humphrey / Sturgeon 2005, 82) as concrete manifestations of the fairly idealised notion of an anonymous ‘world market’. Businesses in globalised trade are *not* exporting to anonymous markets, but to structured global value chains (Gereffi / Korzeniewicz 1994; Messner 2002; Gereffi / Humphrey / Sturgeon 2005; Schmitz 2005; Stamm et al. 2006); in these, interaction is not as comprehensively determined by *price* as the idea of market coordination suggests, but also, by non-market, “*explicit*” forms of coordination (Gereffi / Humphrey / Sturgeon 2005, 82)<sup>52</sup>. The term “*value chain governance*” (Gereffi / Humphrey / Sturgeon 2005, 79; Stamm et al. 2006, 37 ff.) depicts the various forms of non-market coordination in global value chains. In those global value chains, in which governance patterns are asymmetric, so-called *lead firms* set and enforce the norms and policies “*due to their command over specialised knowledge, technology or marketing capabilities*” (Stamm et al. 2006, 31).

An example for transnational rule systems are the International Organization for Standardization (ISO) industry norms, which are not proliferated by governments, but as part of lead firms’ requirements to suppliers when sourcing products in business-to-business operations. ISO norms are predominantly product norms, specifying technical characteristics of products or inputs to production processes. Increasingly, however, process norms, which qualify the production processes with regard to requirements for quality management (ISO 9.000 series) or environmental management (ISO 14.000 series), are becoming the mainstream.

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52 Gereffi, Humphrey and Sturgeon adopt the term ‘explicit coordination’ from Clemons et al. (1993) as to refer to non-market forms of coordination of economic activity (Gereffi / Humphrey / Sturgeon 2005, 100).



In the same manner, the process standard SA8000 – which will be discussed in the empirical chapters of this study – prescribes labour and work-safety features for the production process. Besides private standards such as SA8000, there are business-specific codes of conduct related to social and environmental aspects of the production processes which, as attachments to orders, become manifest policies that lead firms inflict on the global value chains.

Through these privately governed policies, the ‘good business’ discussion is proliferated to the global value chains, within which they become part of the value chain governance. As long as the governance in the global value chains has been determined by lead firms from the OECD, the O-type of business legitimacy has been proliferated to the global value chains.

### 3.2.1.2 Anomic social division of labour in global value chains

Keeping the notion of governance in global value chains in mind, another stream of thought can add to the understanding of business legitimisation in global change. In his work on the social division of labour, the French sociologist Émile Durkheim observed the relation between exchange and morale in societies (Durkheim 1988). As Durkheim studied this relation for his age of globalisation in the early 20th century, it provides surprisingly instructive insights for present-day globalisation.

Alike many thinkers in the social sciences before him, Durkheim placed the human “*propensity to trade, barter and change*”<sup>53</sup> at the root of the dynamics of social change. Durkheim sees a high level of social division of labour as the central structural principle of modern—in contrast to traditional—societies. As a result of the division of labour, modern societies develop forms of cohesion that are distinct from those in the traditional societies. Members of traditional societies relate to each other on grounds of similarities, giving rise to a ‘collective consciousness’ that binds them together. The members of modern societies, in turn, exhibit much less similarities and therefore lack the collective conscience. In contrast, due to the functional differentiation in modern societies, differentness is a formative characteristic. Hence, social cohesion in modern societies has its source in the interdependence of functionally differentiated organs and functions. As a conse-

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53 Adam Smith, quoted in Müller / Schmid (1988, 484).

quence of the high material and moral density in the course of increased 'organic' division of labour, the elements of the modern society are intimately bound to each other (Müller / Schmid 1988, 498). From these interdependencies result 'organic' forms of cohesion ('solidarity'). Each act of exchange is thus embedded in solidarity that reigns between interdependent exchange partners.<sup>54</sup>

Social change, in the form of progressing social division of labour, impacts negatively on the morally embedded exchange. If new organs or functions of exchange form, but the formation processes themselves are not accompanied by the development, to the same extent, of rules that govern the exchange, then pathologically rule-less, "anomic" forms of social division of labour take hold (Müller / Schmid 1988, 501 f.). Durkheim attested such a state of affairs to the globalising European societies before World War I: *"Pervasive changes have taken place within minimal time. History knows no example for the rapidness in which they dissociated from the [old social solidarity; jw] type. Consequently, the morale that corresponded to the [old; jw] social type shriveled, and no new social type developed quick enough in its place, to fill the gap that the former left in our consciousness"* (Durkheim 1988, 479; translation jw).

The increasingly transnationally organised industrial production in global value chains can now be regarded from this angle: In the course of present-day advances in the social division of labour – the functional differentiation of production in the global value chains – equally, old patterns of exchange are being breached. As seen, the globalisation of production meant that the exchange between businesses and their more direct internal stakeholders – employees of companies – has been replaced by exchange with more indirect market-based external stakeholders: the employees of companies in the supply chain (see chapter 3.1.1.4). As the division of labour advances on a global level, business-stakeholder-relations transform in ways in which they are to an important part mediated through the global supply chains. At the same time, a new 'social type', i.e. an adapted morale that would span

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54 Please note that 'solidarity', here, is not the normative term of the workers' movement, but Durkheim's technical term that describes the bonds of social cohesion ('les liens sociaux') encompassing "the interface between structure and functions of society—its social organization—and its rule and value system i.e. its morale" (Müller / Schmid 1988, 490; translation jw).

the new, more oblique exchange relations, has not yet developed in order to functionally replace the nation state-confined frameworks. There is not yet consent on the legitimacy of businesses that would be broad enough to span the scope of exchange relations in the global value chains.

Thus, in the view of global change as advanced social division of labour according to Durkheim, the current globalised economy – as much as 100 years before the economy in Durkheim’s times – exhibits characteristics of an ‘anomic’ social division of labour. Anomy, however, can be made responsible for “the constantly recurring conflicts and the various forms of disorder that belong to the sad game that the economic world offers us” (Durkheim 1988, 42; translation jw). The lack of rules of exchange, the insufficiency of the old morale type and the proneness for conflict of a society “*which is exclusively based on the free interplay of market forces, a minimal state and purely individual interests*” (Müller / Schmid 1988, 500; translation jw) – all these diagnoses which have been made on the state of globalisation in 1902, come surprisingly close to those attested in the contemporary global governance discussion.

For Durkheim, however, anomic division of labour is not a chronic, but a transitory phenomenon: an immanent process of self-regulation—coming into effect with a time-lag—provides for new forms of solidarity overgrowing and thus healing the anomic condition. This process of self-regulation is prompted by ‘habitualisation’ in the course of exchange: if the transaction serves mutual interest, the individual desire of the transaction partners to repeat the transaction leads them to enter into agreements on the rules that govern the transaction. An exchange transaction is then at first governed by ad-hoc provisional rules which, if repeated, develop into customary rules and finally coagulate into codified norms (Müller / Schmid 1988, 507). In aggregate, institutional evolution takes place.

Furthermore can be concretised with reference to the implications of globalisation (grasped as advanced social division of labour) that the ‘good business’ debate forms part of the governance in the global value chains in response to anomic conditions in the globalised production. The ‘good business’ discourse is part of a dynamic by which morale is being reproduced through habitualised exchange.

### 3.2.2 Second wave of global change: Asian Drivers of Global Change

If the institutional sites in which morale is being reproduced through habitualised exchange are the global value chains, and if further, exchange is structured by governance in global value chains, then aspects of bargaining power have to be considered next. It is decisive for any future notion of legitimate business, which exchange partner to what extent impacts on the visionary, customary and codified rules: *whose morale* is being reproduced in the global value chains? Thus, regarding the governance structures in global value chains, business legitimacy is contingent on the exchange partners' bargaining power.

In the course of a second wave of global change (Messner 2007a), the bargaining power of China and India increases: on a general level; in the global value chains in particular, and in forms of 'soft power' (Nye 1990; 2004). The most important streams of the discussions on China's and India's increased bargaining power and ascendancy to global significance have been introduced to in chapter 1.3.3: the banking business-driven BRICs debate lays a focus on investment opportunities in the emerging economies Brazil, Russia, India and China (O'Neill 2001; Wilson / Purushothaman 2003; O'Neill et al. 2005; Aguiar et al. 2006); the internal debates in China and India on the 'Chinese Renaissance' and on 'Shining India' mirror the increasing self-confidence of Chinese and Indian discussants (Zheng 2002; Zheng 2004; Suettinger 2004); the 'power shift' discussion focuses on the implications that the rise of the new drivers holds for the US hegemony (Shambaugh 2005); and the discussion on the so-called 'Beijing consensus' (Ramo 2005; Dirlik 2006) encompasses the sometimes heated debates on the impression that development models of China and India leave on other developing countries, not only in Asia but also Africa and Latin America.

In this study, the side stream of the global governance discussion that conceptualises China and India as the "Asian Drivers of Global Change" (Schmitz 2005; Schmitz 2006; Humphrey / Messner 2006b; Kaplinsky 2006; Messner 2007a; Schmitz / Messner 2008; Messner / Kaplinsky 2008) provides a frame of conceptual reference. With the help of this reference, the implications of the increased Asian Drivers' bargaining power for the global business legitimacy governance are considered in the following chapters.<sup>55</sup>

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55 In accordance to the overall design of the study, more examples from China are taken into focus and less from India.

### 3.2.2.1 Asian Business Drivers' bargaining power

Recent literature on global governance that focuses on the rise of the Asian Drivers of Global Change sees the two largest Asian economies as agents that will change the rules of the game in the global political economy (Kaplinsky / Messner 2008, 197). Kaplinsky and Messner identify macro-economic reasons why the Asian Drivers present a new and significant challenge to various aspects of global governance: While relational economic benchmarks of the Asian Drivers, such as the ratio of exports to GDP, growth of GDP or growth of exports are *not* unique – those of Japan and Korea during their economic ascendancy resemble them – the challenge is posed by the *absolute size of the economies* that are to be integrated into the global economy. *“In 2004, China accounted for 20% of the world’s population and India for 17%. By contrast, at no time did the combined population of Japan and Korea exceed 4% of the global total”* (Kaplinsky / Messner 2008, 198). Furthermore, both China’s and India’s economies display the unique simultaneous conditions of low wages and innovative potential, adding significantly to their competitiveness in regional, but also global contexts (Kaplinsky / Messner 2008, 200). Finally, their immense natural resource and energy needs mean that neither conflicts over global resource allocation, nor *“the key global environmental challenges will be solved without China and India”* (Kaplinsky / Messner 2008, 202).

The global change inflicted by the Asian Drivers is not expected to take place in moderate and incremental ways, but rather in the form of ‘tectonic shifts’ (Humphrey / Messner 2006a; Kaplinsky / Messner 2008, 199; Wolff 2006, 5). As a consequence of these power shifts, the Asian Drivers dispose of increased levels of bargaining power in global politico-economic arenas, hence challenging and eventually compromising the bargaining power of the ‘old drivers’, who could lose out in current global change.

Resulting from this, the global politico-economic constellations so far are believed to be liable to tilt over. After the bi-polar world order ceased to exist as a consequence of the collapsing systems in the USSR and Eastern Europe and at the end of a subsequent brief historical interlude of US-unilateralism, multi-polar patterns, with the Asian Drivers representing new poles of global power, are expected to take shape (Humphrey / Messner 2006b; Fues et al. 2006; Fues 2007). This view is a rather disconcerting outlook, so much as multi-polar structures are compared to the unbalanced and thus unstable power constellation of the middle powers of Central Europe in the era leading up to

the first World War (Humphrey / Messner 2006b, 2). In the face of these grim perspectives, the rise of the Asian Drivers calls for stringent global governance policies, designed for the inclusion of China and India into a system of effective multilateralism. As a consequence of their sheer size, China and India are changing "*the conditions and room for maneuver in the global economy*" (Gu / Humphrey / Messner 2008, 20). China's economy is believed to be the third largest in the world, worth five trillion US-Dollars in purchasing power parities (PPP).<sup>56</sup> India, with over than two trillion US-Dollars (PPP), closely follows Germany in the ranking as the world's fifth largest economy. China is the world's largest producer and consumer of steel, the second largest user of energy and has recently overtaken Germany as the world's largest exporter. Within ten years, China is expected to overtake the US to be the world's largest economy in PPP (The Economist, 22 December, 2007, 92).

For at least seven consecutive years, China's and India's GDP growth rates have ranged between eight and twelve per cent annually (IMF 2008).<sup>57</sup> Their GDP growth is much less dependent on exports than commonly assumed. If discounting imported components, the share of exports, for instance in China's GDP is below ten per cent (compared to almost 40 per cent when using the headline exports-to-GDP ratio) (The Economist, 5 January, 2008, 63). Rather, investment and government spending drive China's growth. Domestic savings are much more relevant for China's economic rise than foreign consumption. As a consequence of this and as can be currently witnessed, China is much less vulnerable to dropping global demand than has been assumed. In contrast, stable demand *from* China is currently a major factor for pulling the global economy out of the crisis (Financial Times Deutschland, 23 September, 2009).

Regarding CO<sub>2</sub> emissions, it is assumed that China has already overtaken the US in 2007 climbing to the top of a rather inglorious ranking (Vidal / Adam 2007; Zhang 2008).

If technological advances are a sign of future competitiveness of economies, then the rise of the Asian Drivers will continue to be significant in the medium-term. "*Since World War II, the US has been the main driver*

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56 Although, recent adjustments in the GDP calculations that use purchasing power parities (PPP) downsized these estimates (The Economist, 22 December, 2007, 92).

57 Earlier theorists of industrial development have characterised consecutive growth rates of 10 per cent and more over a period of more than ten years as the economic "take-off phase" (Rostow 1959).

*of the global economy. Now we have a situation in which technology products are going to be appearing in the market place that were not developed or commercialised here*", says Nils Newman, co-author of a study of worldwide technological competitiveness at Georgia Tech (Science Business 2008). In a ranking that included variables on national orientation towards technological competitiveness, socio-economic infrastructure, technological infrastructure and productive capacity, China scored 82.8, compared to 76.1 for the US, 66.8 for Germany and 66.0 for Japan. Eleven years ago, China's score was only 22.5. These advances also go against the popular belief that China's growth is based on the low-cost-low-quality exports of the manufacturing industry. By contrast, China is now producing 30 per cent of the world's solar panels (Time, September 7, 2009, 52) and is believed to lead global research and development in nanotechnology.<sup>58</sup> It adds to the picture of technological competitiveness that China recently surpassed the US in having the largest number of internet users in the world with above 210 million users (China Daily, March 14, 2008).

Altenburg, Schmitz and Stamm argue that in the course of the inclusion of Chinese and Indian firms in the OECD firm-led global value chains, there has been a massive dispersion of production capabilities away from the OECD world, and towards the Asian Drivers. More momentous still, as these are the presupposition for independently building up capabilities in the medium-term future, Asian Drivers also accumulate *innovation* capabilities at a rapid pace (Altenburg / Schmitz / Stamm, 325). Important agents in these processes are businesses. Equipped with good access to production capabilities and to financial, human, and thus innovative resources,<sup>59</sup> *"it is likely, therefore, that Asian Driver firms (and particularly Chinese enterprises) will interact with the global economy – including through outward FDI – in historically distinctive ways"* (Kaplinsky / Messner 2008, 200).

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58 According to Pat Mooney, winner of alternative Nobel Prize; spoken at the dialogue event "Kampf um Ressourcen – Konfliktbewältigungspotenziale der UN und anderer internationaler Akteure" in Bonn, 18 September, 2007.

59 *"The New Argonauts' [are; jw] highly mobile, technically skilled entrepreneurs, engineers and scientists mostly of Indian/Chinese origin, with substantial research and work experience in the United States, applying their skills and capital in their country of origin"* (Saxenian 2006, quoted in Altenburg / Schmitz / Stamm, 21).

As a consequence of these tendencies, “*new Asian lead firms*” (Schmitz 2005, 8) – or as they are called here: Asian *Business Drivers* of Global Change – enter the stage. Thus, advances in bargaining power of the Asian Drivers in general translate into increased bargaining power of the Asian *Business Drivers*. As an indication of this, the Chinese State-owned Enterprise (SOE) COFCO (China Agri-Industries Holdings Ltd.) – organising a major share of China’s huge food supply by intensively interacting with the world markets – is now among the most important business players in global agribusiness markets.

At an aggregate level, actors in China’s export value chains have gained considerable bargaining power thanks to various macro trends: Before, the typical case has been one of a Chinese business that is eager to gain access to OECD lead firms-led global value chains by employing upgrading strategies. All successfully upgraded exporting firms taken together subsequently generated the foreign exchange income that financed China’s economic rise. However, the Chinese suppliers in the export value chain had little leverage in the value chain’s governance. This picture has changed. As seen, China is today less dependent on exports. It now commands the largest foreign exchange reserve pool, and domestic demand is becoming an increasingly important factor for the economy. But similarly, many businesses in the export clusters have upgraded *highly* successfully. Instead of them depending on the foreign buyers, now many OECD based buyer firms can no longer afford *not to source* from Chinese businesses: In terms of lead time, quality and batch size, many specialised suppliers in the export-driven supply chains in China are now second to none in the world. As a consequence (and as is discussed in the following chapters), governance patterns in some global value chains have even been reversed. Instances of shifted or reversed value chain governance, of course, hold major implications for the negotiation on business legitimacy in the global value chains and thus for the theoretical framework of this study.

### 3.2.2.2 Asian Business Drivers’ soft power

However, the Asian Drivers’ expanded bargaining power not only stems from economic power, but also from gains that China and India have made in terms of ‘soft power’. Joseph S. Nye defines soft power as the ability to get what you want through attraction, particularly to a country’s culture, ideals and policies, rather than by means of coercion (Nye 1990; 2006).



*“Power is the ability to influence others to get them to do what you want. There are three major ways to do that: one is to threaten them with sticks; the second is to pay them with carrots; the third is to attract them or co-opt them, so that they want what you want. If you can get others to be attracted, to want what you want, it costs you much less in carrots and sticks.”*<sup>60</sup> Hence, using this third way in-between carrots and sticks in the global discussion on ‘good business’, means that by virtue of their increased appeal to others, it takes the Asian Drivers less resources in terms of carrots and sticks to make themselves heard.

Joshua Kurlantzick exemplifies *“How China’s Soft Power is Transforming the World”* (book title) by quoting global stakeholder surveys: *“In the 2005 BBC poll of twenty-two nations, not only did 48 per cent of people believe that China’s role in the world was mainly positive, but only 38 per cent thought the United States had a positive influence on the world, about the same number as for Russia, a near-authoritarian regime run by a former KGB man. The follow up BBC poll displayed similar results”* (Kurlantzick 2007, 176).

Thus, as Chinese soft power builds up, ‘western’ soft power diminishes. The ‘American Way of Life’ – once a commonplace image to symbolise the attraction for the opportunities that liberal western societies offer – has lost in appeal throughout the last decades, most notably since the second war in Iraq. As Nye argues, *“it is not just whose army wins. It’s whose story wins”* (ibid.)

In contrast, the world is to an ever-increasing extent listening to Indian and Chinese stories. For a surprisingly long time, China was only rather discussed as a side issue in globalisation. The German Enquête Commission on Globalisation (Deutscher Bundestag 2003) issued a report of over 600 pages in 2003, discussing China in only a few pages.<sup>61</sup> Five years later, a single issue of *The Economist* reviews six new publications focusing on China in the global economy (*The Economist*, 26 January, 2008, 77). Thereby, China and India do not only attract the attention, but increasingly also some

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60 Joseph S. Nye, April 13, 2004 at the Carnegie Council for Ethics in International Affairs, New York City; online: <http://www.cceia.org/resources/transcripts/4466.html> (accessed 27 Nov. 2009)

61 Dirk Messner, in a presentation “China – a new global reality” at InWEnt, Bonn, 23. January 2007, see also Messner (2007, 22).

of the skilled workforce of western origin, who choose to work in the commercial centers of the Asian Drivers.

Clearly, China and India are building up soft power, in parts by image campaigns ('India Shining') and global events (Olympics 2008 in Beijing, EXPO 2010 in Shanghai), but maybe in much larger parts by being ascribed significance by external actors. However, as much as the US, the Asian Drivers have to be wary of pursuing 'hard' interests compromising their soft power. For instance, the fact that Hollywood movie director Steven Spielberg withdrew from his position as artistic director of the 2008 Beijing Olympic Games because of China's questionable activities in Sudan (CSR China 2008), or much more so the international protests following the Chinese police and military repressions against demonstrations in Tibet in March 2008, impair China's efforts to construct benign images designed to signal to other global actors the will for a peaceful rise (Kupchan 2001; Gu / Humphrey / Messner 2007).

Soft power becomes a relevant aspect in the discussion on intangible business assets such as brand image and concepts of 'good business' – in which military power must not, and economic power should not interfere. Extensive use is being made of the ability to influence others using neither coercion nor money, e.g. by marketing specialists in firms. Using brand images, media and public opinion dynamics, they uphold the relationship to stakeholders in communicative ways, using soft power mechanisms.

Doing without China or India in any global conclusions on business legitimacy, therefore, not only meant excluding increasingly significant parts of the global economy – which would be a conclusive, but 'hard' power argument – but also neglecting the opinion of an increasingly significant share of transnational stakeholders on *who should be included* in those global conclusions. Across international organisations, multi-stakeholder regimes, private businesses and government agencies, the participants in the discussion on 'good business' are in fact eager to include the views of actors from Asian Drivers in this discussion. For instance, the Roundtable for Responsible Soy Bean (RTRS), a global multi-stakeholder initiative, tries to include the large Chinese SOEs COFCO and 93 Group, who command a very significant share of the global soy market through their operations.

Moreover, the actors from Asian Drivers themselves are increasingly self-confident about introducing their own distinct role models to the global

public. According to the US-based market information firm Nielsen, 2 billion viewers – one third of the world’s population – watched the opening ceremony of the Beijing Olympic on 8 August, 2008 (The Nielsen Company 2008), during which at a crucial moment of the performance actors formed the Chinese word for harmony 和 (“Hé”) – a strong statement of a home-grown role model during an auspicious event, which by many has been commented as China’s celebration of re-appearance on the global stage (P24/11, see 5.2.1.1).

Both the fact that the world increasingly wants China to have a say and its growing propensity to actually have a say can be viewed as symptoms of China’s increased soft power. With regard to this study’s topics, these processes can be described as a development, within which China simultaneously *is ascribed*, and *actively assumes*, increasing degrees of *interpretive authority*<sup>62</sup> over the discussion on ‘good business’. Symbolic politics<sup>63</sup> – a stress on the expressive dimension in political communication – plays a role here: sometimes much more than what it is being communicated, *how* it is being communicated matters in the global ‘good business’ discussions.

In the light of soft power aspects to the global power shifts attested by the literature on global governance, therefore, China’s impact on the business legitimacy discussion can be expected to be characterised by increasing degrees of interpretive authority assumed by Chinese actors. The effect for the discussion might either be stakeholders demanding Chinese positions to be included, or Chinese actors actively presenting their positions – both leaving a mark on the so far OECD world biased discussion on business legitimacy.

### 3.3 Synopsis of the theoretical framework

Whereas the relevant theories in the literature have been introduced according to the two perspectives of ‘global capitalism’ and ‘global change’ in the previous chapters, a synopsis of the approaches shows the following:

As any social institution, businesses need stable legitimacy bases for their actions. However, there is no single framework in the global arena that would sufficiently legitimise business action. Therefore, those businesses

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62 As conveyed in the German terms “Deutungsmacht” or “Deutungshoheit”.

63 Murray Edelman coined this term in his 1964 book, *The Symbolic Uses of Politics* (Edelman 1964).

that have departed from their nation state-confined legitimacy frameworks, require a functional equivalent in order to be responsive to their constituencies.

The constituencies in a position to grant or withhold legitimacy to businesses are, by definition, the stakeholders. Because of the effects of globalisation, stakeholders of businesses are increasingly transnational ones with either direct contract-based relations or indirect market and non-marked relations transgressing spatial and political borders.

Against this background, the engagement in the discussion on 'good business' can be understood as efforts by businesses to construct compensatory proto-institutional legitimacy frameworks at the global level. By global CSR policies, businesses seek new forms of legitimacy that consider the increasingly transnational stakeholder constituencies they must relate to.

This search has not yet been concluded: It can be observed, for instance in the discussion on social standards, and that the advanced social division of labour in the globalised production still exhibits anomic gaps. Rules for business legitimacy that would span the range of global exchange have yet to be found.

According to theory, however, anomic gaps (e.g. in patterns of business legitimisation) are transitory, as they trigger self-healing mechanisms. With a time lag, common rules spanning the range of the advanced global social division of labour emerge as a result of repeated, 'habitualised' exchange (Durkheim 1988), i.e. as a result of the 'explicit coordination' processes (Gereffi / Humphrey / Sturgeon 2005) that accompany the exchange. The institutional locality of explicit coordination of business legitimisation is the power-structured global value chains.

The emergence of rules for business legitimacy can be observed through the lens of the analytical RIPO model: Closing the anomic gap in business legitimacy requires role models (R), appealing brands (I) and interest arbitration procedures (P) to be designed by businesses in a way so that their transnational stakeholders may find themselves represented in the businesses' globalised actions. Besides, there needs to be economic and non-economic output (O) that effectively promotes the welfare of the transnational stakeholders.

However, the notion of an institutional self-healing process needs to take into account the power aspects that are inherent in occasions of global

change: A linear progression towards generalised norms and global institutions, in the form of smooth transitions from many varied nation state-confined, towards one unified global legitimacy framework. These universalistic hopes are diluted by a changing global political economy staging a new set of powerful actors: the Asian Drivers China and India.

These new drivers of global change – including the business actors among them – have been endowed with increasing bargaining power in the course of the current ‘great global transformation’. Seen through the lens of the ‘good business’ discussion, for instance, their increased ‘soft power’ bestowed upon the Asian Drivers an increased interpretive authority over the global debate.

This way, as a result of repeated exchange, the anomic gaps in global business legitimacy might indeed be closed eventually. However, the governance of these exchange processes will include the Asian Business Drivers as important actors. Ultimately, as a result of shifts in the global ‘business legitimacy governance’ towards Asian Business Drivers, future global patterns of business legitimisation (O’) will display traces of the Asian Drivers’ business legitimisation patterns (A).

To what extent this will be the case depends on the result of the interplay of different forces that further divergence or convergence between (A) and (O). The literature provides explanations for both variation and convergence of patterns:

From the ‘varieties of capitalisms’ thought, it follows that forms of acquiring business legitimacy are institutionalised practices that are complimentary to respective institutional set-ups and practices,<sup>64</sup> as the institutional set-up and practices in the Asian Drivers countries are varied from the ones in the OECD, (A) can be expected to vary from (O).

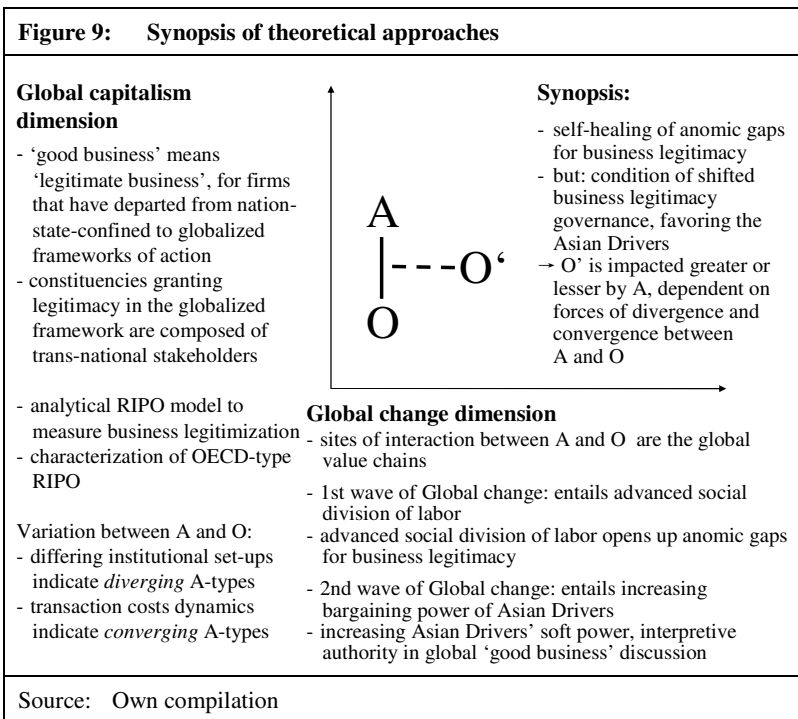
In order to facilitate economic exchange and reduce institutional variance that incurs transaction costs, however, forms of acquiring business legitimacy exercised by Asian Business Drivers can be expected to align with the ones in the OECD world. Therefore, (A) can be expected to converge in the direction of (O).

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64 That is, for successful institutional configurations. Given the Asian Drivers’ economic success, the configurations of their economic institutions can be assumed to be complimentary rather than not.

In how far the features of (A) are varying from or rather converging with the (O) type – thus impacting more or less distinctive on (O’) – is the result of the requirements of distinct domestic institutional set-ups outweighing dynamics driven by transaction costs – or *vice versa*. The question of variation or alignment (divergence or convergence) of patterns cannot be satisfactorily derived from theory. As the literature does not provide unequivocal guidance at this point, empirical research is needed to explore this new field of research.

Figure 9 visualises the synopsis of the examination of the pertinent literature for this study. The interfaces between the insights derived from literature and the empirical set-up of this study are introduced to in the next chapter.



### 3.4 Interfaces between theory and empirical research

Chapter 2.3 introduced the three survey modules employed in this study: survey module 1 ‘discourse analysis, survey module 2 ‘ideal type generation’ and survey module 3 ‘process analysis’. In the broadest sense, modules 1 and 2 survey the global capitalism perspective, while module 3 tackles the global change dimension.

Empirical research in both modules 1 and 2 is designed to bring to the surface degrees of variation between the defined OECD benchmark (OECD RIPO patterns of business legitimisation) and the independent variable (A) (Asian Drivers’ RIPO patterns of business legitimisation). Thereby, the discourse analysis in empirical module 1 serves the purpose of exploring the existing variance by extracting the distinct features of the Chinese domestic discussion on business legitimacy. From this, a ‘discourse type’ of (A) is being generated. This ‘discourse type’ of (A) examines variance at the discourse level and outlines the *potential* for variance between (O) and (A). The results from this inform the construction of scales for measuring business legitimacy to be used in module 2 (see annex 7).

The empirical module 2 then measures variance between the variables. It generates ideal types of Asian Business Drivers’ patterns for business legitimacy: first, by constructing the RIPO-scales that open up between the (O) type (chapter 3.1.3) and the ‘discourse type’ of (A) (empirical module 1); subsequently, by applying the thus amended RIPO model (chapter 3.1.2) to cases of Asian Business Drivers that are identified in chapter 4. The (A) cases become commensurable to the (O) benchmark by assigning values ranging along the spectra of the RIPO scales.

The results of module 1 and module 2 are assessed in the light of the arguments provided in the literature for both convergence and divergence (chapter 3.1.4). Interim results review the assumptions so far and state the implications for the research questions and the design.

Whereas the first two of the applied survey modules measure degrees of variation in a comparative view, the interim results from this exercise are then further elaborated by taking on a dynamic view in empirical module 3 – thereby considering the processuality of the research subject (2.2.3). The process analysis in empirical module 3 makes use of, first, the features of (A) that modules 1 and 2 surface; second, it accounts for the implications of the two waves of global transformation that have been discussed in chap-

ter 3.2: anomic gaps regarding business legitimacy in the global economy, i.e. in the explicitly coordinated global value chains (chapter 3.2.1) on the one hand; the increasing bargaining power of actors from the Asian Drivers – manifest as increasing interpretive authority within the global ‘good business’ discussion – on the other.

The process analysis in empirical module 3, however, does not aim at the same level of analytical depth as the previous modules. Rather, it is used as an interface that – by identifying important causal relations at play in singular incidents and plausibly generalising based on them – connects the empirical survey with the theory-generating parts of this study.

The overall results of the three empirical modules are then put into the synoptic view given in chapter 3.3 – accounting for both institutional order in global capitalism and institutional transformation in global change.

## **4 Asian Business Drivers as actors of global change**

In order to prepare empirically measuring their impact on the global ‘good business’ discussion, the analytical category ‘Asian Business Driver’ will be developed in this chapter. As is shown, distinct classes of Asian Business Drivers can be delineated. The distinct features of the identified classes thus provide explanations for distinct ideal-typical observations on (A) in chapter 5.

### **4.1 A new class of actors enters the global economy**

#### **4.1.1 Distinctive features**

In the course of the current global change, the existence of substantial corporations with a non-OECD political, cultural and business-ethical background in a thus far OECD actor-dominated global political economy marks the advent of a new class of actors of global change: Asian Business Drivers are business actors that are emerging from the Asian Drivers countries China and India, exerting global outreach and driving global change.

What are the distinctive elements of novelty about the Asian Business Drivers that would require extending the agenda of global governance research by this new actor perspective? After all, industrialising Asian economies



(Japan, ‘The Asian Tigers’, ‘The New Asian Tigers’) have been included in the global exchange regimes before.

The difference of China and India is, however, that unlike the earlier integration processes, the integration of the Indian and Chinese economies into the global system, for reasons of scale, challenges the rules and standards of the system itself. And from within these large-scale economies, business actors become important challengers with significance to global governance research.

According to the Boston Consulting Group’s study “*The New Global Challenges*”, 100 companies from rapidly developing economies (RDE 100) “*will radically transform industries and markets around the world*” (Aguiar 2006, 5). Thereby, “*Asia is home to the large majority – 70 – of our RDE 100 companies [...]. China is by far the dominant home base country, with 44 of the RDE 100, followed by India with 21*” (Aguiar 2006, 8). These businesses’ capacity to transform industries and markets can now be observed from different vantage points in order to characterise the Asian Business Drivers.

For example, whereas transnational production capital has been directed *towards* Asian businesses before (fixed capital through FDI, human capital through mobility of talent and knowledge transfer, technology transfer in global value chains), Asian Business Drivers themselves now direct production capital towards global transnational production networks – thereby changing the rules of the game in many aspects, e.g. for the global network of bilateral investment agreements (Berger 2008).

Whereas Asian businesses, as another example, were the targets of joint ventures, mergers or acquisitions before, *Asian Business Drivers* have now become driving actors in these transnational corporate re-structuring operations, whereas these operations can take the forms of southbound mergers and acquisitions, but also much more significantly than before, northbound ones (see 1.2.2.2; Aguilar 2006, 17 f.).

In order to approach the questions this study elaborates on, however, the most relevant aspect is the power to define – or the authority to interpret definitions of – norms, rules and standards applied in global economic exchange processes. Whereas before Asian businesses have been well-integrated in the global political economy *at the receiving end* of the proliferation chains of specifications (product and process parameters), manage-

ment norms and standards in foreign buyer-driven global value chains (Humphrey / Schmitz 2004; Stamm et al. 2006), *Asian Business Drivers* now assume positions at the *defining end*. They are increasingly equipped with interpretative authority within global value chains, and within the external governance discussions surrounding the global value chains. Asian Business Drivers can thus be conceptualised as emerging economy ‘lead firms’ that increasingly govern value chains due to their command, not only “*over specialised knowledge, technology or marketing capabilities*” (Stamm et al. 2006, 31), but also over valid and legitimate definitions for ‘good business’ applied to their value chains.

#### 4.1.2 Definition

In terms of the research design set out in chapter 2.1, Asian Business Drivers make up a specific sub-group at the intersection of research on the global change agents ‘business’ and ‘Asian Drivers’. They have been framed as a significant actor group within a field of research that is described by the two dimensions ‘global capitalism’ and ‘global change’.

Thus, the definition of Asian Business Drivers combines two distinct features of the global governance discussion (see chapter 1.2.3.1): the multi-actor perspective, in which private governance (Messner 2002, 20; Pattberg 2005) exerted by business actors plays a role; and the geographic perspective, in which anchor countries (Stamm 2004) as a class of their own (in a wider sense), and “the distinctive and significant impact” of the Asian Drivers of Global Change (Kaplinsky / Messner 2008, 197) as a sub-class therein (in a narrower sense) play a role:

Asian Business Drivers are businesses that have emerged as important actors from the political economies in rapid transition of the Asian Drivers countries India (in rapid transition since 1992) and China (in rapid transition since 1979), who exert distinctive and significant impact on the global economy.

#### 4.1.3 Classification

In order to further refine the empirical category of ‘Asian Business Drivers’, the following classification is proposed, whereby the attributes applied make reference to the global ‘good business’ discussion. These attributes are *value chain governance*, *ownership* and *mode of global outreach*.

#### 4.1.3.1 Value chain governance

In order to be in the position to “exert distinctive and significant impact” on the global discussion on good (legitimate) business, all classes of Asian Business Drivers must invariably have transcended positions in the global value chains that Gereffi, Humphrey and Sturgeon characterise as “captive” (Gereffi / Humphrey / Sturgeon 2005, 84).

Gereffi, Humphrey and Sturgeon specify ‘captive’ and ‘hierarchical’ value chains with relatively higher degrees of power asymmetry between buyer and supplier and a relatively greater need, on behalf of the buyer, to organise the supplier base by explicit coordination. “Relational”,<sup>65</sup> “modular”<sup>66</sup> and “market”<sup>67</sup> types of value chain governance, in contrast, characterise value chains where there is increasing supplier competence and thus a relatively smaller power asymmetry and less need for explicit coordination.

During the first waves of vertical disintegration processes undertaken by businesses from industrialised countries, developing country businesses typically assumed the roles of captive suppliers. The captive suppliers – and prominently among them businesses from China and India – gauged their production capacities exclusively towards the lead firms’ requirements in order to gain access to the buyer-driven global value chains.

*“Increasing capabilities in the supply-base have helped to push the architecture of global value chains away from hierarchy and captive networks and toward the relational, modular, and market types. [...] As standards, information technology, and the capabilities of suppliers improve, the modular form appears to be playing an increasingly central role in the global economy”* (Gereffi / Humphrey / Sturgeon 2005, 96 f.).

Whereas some classes of Asian Business Drivers upgraded successfully to operate in modular global value chains, others have pushed even further: In some instances, Asian Business Drivers increased their capabilities to such

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65 Relational value chains are characterised by mutual dependence and high levels of asset specificity (Gereffi / Humphrey / Sturgeon 2005, 84).

66 “Sturgeon (2002) referred to production systems that rely on turn-key suppliers as ‘modular production networks’ because highly competent suppliers could be added and subtracted from the global production arrangements on an as-needed basis” (Gereffi / Humphrey / Sturgeon 2005, 83; see p. 87 for typology).

67 In market-type value chains, the costs of switching to new partners are low for both parties (Gereffi / Humphrey / Sturgeon 2005, 83).

a degree, as to be able to reverse value chain governance and power asymmetries, e.g. by buying up the very brand companies they produced for before.

Yet other classes of Asian Business Drivers have not upgraded within governance patterns of OECD buyer-led value chains, but rather independently of them. They gained global significance from their own sourcing point of view. These are often state-owned or formerly state-owned enterprises that source for raw materials or energy products in the global markets. Another class uses the global markets for their marketing and sales activities and governs as lead firms own chains of global subsidiaries.

A common feature for all classes is, however, that from the perspective of value chain governance they either are “no longer easily pushed around” (P18/115) by OECD world buyers, or never have been in first place.

#### 4.1.3.2 Ownership

The reforms of the formerly centrally planned economies of the Asian Drivers gave birth to two new forms of global players: existing state-owned companies that recently advanced their activities to the global spheres; and newly established, pioneering, private businesses that launch their global activities based on a transition economy.

As has been shown for China in particular, the transitions context bore and still bears many mixed forms of business ownership (Fischer 2006, 31) so that the broad distinction of public and private can only result in a simplified model. In fact, many of the most successful private companies exhibit state or state-controlled shareholdings. However, for the purpose of observing their impact on the discussion on ‘good business’, a very broad distinction of ownership – making it possible to expose their relationship of relative dependence on state actors – is sufficient at this stage of the research.

#### 4.1.3.3 Mode of global outreach

A further classificatory distinction is being made according to the geographical focus of the business activities: the distinction whether companies operate domestically or with global outreach. As the impact of the businesses on the global discussion on ‘good business’ is being observed here, clearly the global outlook is of interest. Therefore, “*Local Dynamos*” (Bhattacharya / David 2008) or “*Stay-at-home-Giants*” (The Economist, 15 March, 2008, 76),

which are undoubtedly of utmost interest when assessing the development of the Asian Drivers countries as such, do not come into this picture. For the same reason, the big state-owned banks, which still overwhelmingly serve domestic retail and corporate customers, are not considered here.

The relevant modes of exerting global outreach by those businesses are furthermore grasped in three specifications: supplying, selling and sourcing. ‘Supplying’ characterises those businesses that have upgraded in OECD company-led global value chains; ‘selling’ characterises those businesses that maintain newly established own brands in the global markets; and ‘sourcing’ hints at those companies that established overseas supplier relationships.

Table 5 illustrates the classification of Asian Business Drivers. Furthermore, those businesses that have emerged from the political economies in rapid transition of the Asian Drivers India and China that,

- have acquired upgraded positions in either OECD-led or self-commanded global value chains,
- may be state-owned or privately owned and
- exert distinctive and significant impact on the global economy through supplying, selling or sourcing activities, constitute the distinct classes of the empirical category of Asian Business Drivers in the frame of this study.

For the purposes of the empirical survey, it is suggested to define the classes ‘State-owned Multinational Enterprises’, ‘Private Business Pioneers’, ‘Supply-End Drivers’, ‘New Global Brands’ and ‘New Global Sourcers’.

From the overview in table 5 it is immediately evident that this classification is not exclusive inasmuch as it does not eliminate overlaps. For example, both SOEs and private companies establish new global brands, and both SOEs and private firms can be found being engaged in the global sourcing networks. And obviously, a global brand company may simultaneously depend on sourcing from overseas. Therefore, this classification – not dissimilar to the ideal type approach – has to be regarded as a heuristic guidance within the framework of this study, and may well be subject to further refinement or revision beyond it.

**Table 5: Classification of Asian Business Drivers according to ownership, mode of global outreach and value chain governance**

		Ownership		Upgraded positions in OECD-led GVC or leading positions in self- commanded GVC
		Public	Private	
		State-owned Multinational Enterprises	Private Business Pioneers	
Mode of global outreach	Supplying	Supply-end Drivers		
	Selling	New Global Brands		
	Sourcing	New Global Sourcers		
Source: Own compilation				

## 4.2 Emerging global players from China

Whereas the above classification should, in principle, also be able to serve as a tool for observing emerging business drivers from India, the focus in this study is on China. China is the country of origin of twice as many top 100 companies based in rapidly developing economies than India (Aguar 2006, 8) and the Chinese government deploys a deliberate strategy to facilitate the “Going Global” aspirations of its most advanced corporations (Fuchs 2007, 27; Berger 2008, 3; Bezlova 2010).<sup>68</sup> As a result, the Chinese Ministry of Commerce reports overseas projects of Chinese companies of US\$ 58 billion completed in the first ten months of 2009 (Bezlova 2010). For there accentuated global outreach, empirical research on emerging global players from China, even more so than research on their Indian counterparts, provides insights on the impact of Asian Business Drivers on the global discussions on ‘good business’.

<sup>68</sup> According to Fuchs (2007), among others, the strategy materialises as such: the State Administration of Foreign Exchange (SAFE) has waived all limits on the amounts of foreign currency that companies want to purchase in order to finance their overseas investments. Furthermore, companies are granted credits at preferential rates, in order to execute mergers and acquisitions of private equity (Fuchs 2007, 32).

This chapter and the following chapters 5 and 6 will build on a survey that has been conducted between mid 2006 and mid 2008 (s. 5.1) on the impact of emerging global players from China on the global discussion on ‘good’ (legitimate) business, as empirical foundation of the concept of Asian Business Drivers. Using the results of this survey, the following cases will be observed:

- State-owned Multinational Enterprise: Sinopec (China Petroleum & Chemical Corporation)
- Private Business Pioneers: Beijing Air Catering Co., Ltd. (BACL) and Yangtzekiang Garment Limited (YGM Group)
- Supply End Drivers: Foxconn (Hon Hai Precision Industry Co. Ltd.)
- New Global Brands: Lenovo Group
- New Global Sourcers: Zhejiang Huayou Cobalt Co. Ltd. and Chalco (Aluminum Corporation of China Ltd.)

These cases will be briefly introduced here, in order to make them accessible for the analysis in chapter 5.

## 4.2.1 State-owned AND multinational: Sinopec (China Petroleum & Chemical Corporation)

### 4.2.1.1 Drivers and dynamics

“The biggest business on earth is the Chinese communist Party! Five Chinese companies were for a while among the 10 biggest companies in the world. All those have one single biggest shareholder, which is the Chinese government” (P23/50).

Considering this statement, one important implication of the research on Asian Business Drivers on questions of global governance is that the biggest concentration of decision-making power over business action in global capitalism is in the hands of a socialist government: The Chinese government is the biggest entrepreneur in the world.

What does this paradox mean for state-owned enterprises (SOEs), which are on the one hand owned by a socialist state and therefore an element of

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69 Banks were not surveyed.

the structural organisation of a socialist polity, but on the other hand are rapidly growing into a role of a multinational enterprise that has to live up to global standards – not only in production and management technology, but also in globally valid definitions of good business?

On the one side, the reforms after 1978 have brought a degree of autonomy to SOEs in some aspects (E03/32). They have been relieved of some of the comprehensive social functions – ranging from housing for workers, schools, workers' clubs to sometimes even funeral services (E20/39). In some instances enterprise-sponsored nursery schools, schools, hospitals and other public institutions were handed over to local governments (P2504/16; Wang Z. 2007). Nevertheless, the communist party of China (CCP) views SOEs neither only nor primarily as commercial actors, but as social institutions with the goal of maintaining social stability (E20/49) – and sets their goals accordingly. This can mean that in the name of social stability, business rationality is sacrificed. For instance, SOEs have a mission to stabilise consumer prices for food or key commodities, even if the global markets in which they operate would not allow for this under 'normal' business conditions. This is the case, e.g., for rice prices in spite of global food price increases (P23/41), and also for refined products from imported oil (P17/36; Kamp 2008c). During the preparation for the 60th anniversary of the People's Republic in 2009, the government ordered to "*create a harmonious and stable price environment*", e.g. in prices for food and gas (The Economist, 5 September, 2009, 62).

At the same time, the government wants the SOEs to learn to be more efficient through exposure to market competition, especially overseas (E20/51). As much as other multinational companies, Chinese State-owned Multinational Enterprises (SOMNEs) have to live up to global benchmarks that mostly are in line with a very strict sense of business rationality. Hence, SOMNEs face a mixed mission that is driven – but also made possible through re-financing deficits – by the Chinese government.

Recently, the Chinese government endorsed definite parts of the global CSR agenda (see chapter 5.5), trying to implement these, among others, through the SOEs: On 4 January, 2008, the State-run Assets Supervision and Administration Commission of State Council (SASAC) released a 'No. 1 Red Header Document' entitled 'Instructing opinions about state-owned enterprises (SOEs) fulfilling social responsibility' (Ho 2008;



Chahoud 2008).<sup>70</sup> Besides numerous corporate social responsibility-related items, the instructions require the SOEs to “*actively participate in formulating international standards on CSR*” (Ho 2008, 2).

Taking all the above-mentioned aspects together, Chinese SOMNEs can be described as global players with changing domestic roles that are required by their majority stakeholder to, first, fulfill functions of maintaining social stability in the context of Chinese transformation, second, to enhance efficiency by learning from global peers, and third, to engage in the global discussion on ‘good business’.

#### 4.2.1.2 Case<sup>71</sup>

Sinopec, a ‘global challenger’ (Aguilar 2006, 7) and the world’s third largest oil refiner by capacity, currently ranks 9th on the Fortune Global 500 list.<sup>72</sup> The corporation, while 75 per cent of its equity is owned by the Chinese state (through the State Council-controlled China Petrochemical Corporation), lists smaller parts of its equity on stock exchanges in Shanghai, Hong Kong, London and New York. Headquartered in Beijing, Sinopec has subsidiaries all over China and sells its products in thousands of petrol stations across the country.

In 2007, it turned over about US\$ 159 billion (according to the Fortune Global 500 list and RMB, 1,209 billion according to the Annual Report 2007; Sinopec 2007, 5) with the production of crude oil and natural gas, refineries and chemicals production. In the same year, Sinopec employed 334,000 staff dispersed in numerous subsidiaries all over China and abroad.

Sinopec operates in resource rich areas on a global scale. More recent foreign resource investments include a US\$ 3.5 billion investment in Russia’s Udmurtneft, the acquisition of a 60 per cent stake of Australia’s AED Oil (van der Wath 2008, 8) and a deal to buy Canada’s Tanganyika Oil Co. Ltd. for 2.07 billion Canadian dollars.<sup>73</sup>

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70 A “*No. 1 Document*” (一号文件; Yī Hào Wén Jiàn) is particularly symbolic, as it was the first Red Header Document issued to the public that year, meaning that the stated content will be the main focus of work for that department for the whole year” (Ho 2008, 1).

71 Whenever details on the cases are not referenced, the information is taken from the companies’ websites, listed in annex 5.

72 All Fortune Global 500 rankings are quoted for mid 2009.

73 See: [http://www.chinadaily.com.cn/bizchina/2008-09/28/content\\_7067375.htm](http://www.chinadaily.com.cn/bizchina/2008-09/28/content_7067375.htm) (accessed 14 Nov. 2009).

As other SOMNEs, Sinopec is not just doing business, but political business. Because Sinopec is so closely connected to the legitimacy of the government and the CCP, “they have to put stability first, then they talk about anything else” (P23/46). For stability reasons, the company imports crude oil at international prices and sells its refined products at lower domestic prices, thereby generating a loss (P17/36).<sup>74</sup>

Sinopec is engaged in manifold political and societal activities. It has been a major sponsor of the 2008 Olympics, and still is a major sponsor of the Shanghai Formula 1 (‘Sinopec Chinese Grand Prix’) and furthermore engages in national endeavours, such as the Chinese space programme.

At the same time, Sinopec has a global view. It supported the establishment and hosts the operations of the Chinese subsidiary of the WBCSD, the Chinese Business Council for Sustainable Development (CBCSD).

With regard to the above classifications of Asian Business Drivers (value chain governance, ownership, mode of global outreach), Sinopec classifies as state-owned, however pursuing a sourcing-related outreach to the global markets and thereby clearly dominating its value chains in China and abroad as a lead firm. Therefore, Sinopec is a member of the State-owned Multinational Enterprise (SOMNE) class of Asian Business Drivers, facing the mixed mission of combining a domestic political business mandate with globalised standards of business operation.

#### 4.2.1.3 Similar cases

Many other Chinese SOEs face the same challenge. Just in the mineral resources industry, other SOMNEs are China National Petroleum (CNPC, Fortune Global 500 rank 13) with its listed arm PetroChina Co. Ltd., the China National Offshore Oil Corporation (CNOOC, Fortune Global 500 rank 318), and the Aluminium Corporation of China (Chalco Fortune Global 500 rank 499, see 4.2.5).

Examples from other industries include the China Ocean Shipping (Group) Company (COSCO Fortune Global 500 rank 327), the Baosteel Group (Fortune Global 500 rank 220), the cement producer Anhui Conch or

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74 Albeit, domestic petrol prices have continuously risen in recent years – which signals that the government is not willing to subsidise SOEs’ losses in the long run. Rising petrol prices have already triggered public unrest, such as among lorry or taxi drivers; online: <http://www.alertnet.org/thenews/newsdesk/PEK231142.htm> (accessed 14 Nov. 2009).

China's leading importer and exporter of cooking oil and food, COFCO (Fortune Global 500 rank 335).

## 4.2.2 Private Business Pioneers: Beijing Air Catering Co. Ltd. (BACL) and YangtzeKiang Garment (YGM Group)

### 4.2.2.1 Drivers and dynamics

“When Deng Xiaoping opened up China in 1978, you saw all those Hong Kong Chinese coming across the border to Shenzhen to help encourage trade between Shenzhen and Hong Kong. That's how we started. In 1978 a lot of my friends all went there with nothing and just carried things across the border, in their own hands” (A0102/34).

The dynamics surrounding the Private Business Pioneers are closely related to the policies of opening up since the late 1970s and the related early influx of production capital into China, primarily from (culturally) closely related economies such as Hong Kong, Taiwan and Singapore, but also from other Asian countries. At that time, barely any investor from the OECD world thought of venturing into the People's Republic as being a business opportunity. Deng Xiaoping's reforms provided the foundation for ethnic Chinese businesspeople to expand operations into the mainland, with the view of exporting from China, but increasingly also with the expectation of tapping into the Chinese domestic market.

Many of those started up from the very rudimentary business environment of the early 1980s, where for instance one telephone line had to cater for businesses with several thousand employees (A0301/22), where machinery had to be transported from abroad to the early production sites by train (A0101/28) or where joint ventures were finalised by shaking hands on them, while handing over foreign currency in cash (A0101/27).

Even for ethnic Chinese, major business-cultural gaps had to be overcome – not only regarding the mainland's business environment, but also concerning language, e.g. for Cantonese-speaking businesspeople from Hong Kong.

The Private Business Pioneers combined their willingness to take risks and to transfer knowledge and production technology to the coastal areas (with concentrations in Beijing, the Yangtze River Delta and the Pearl River Delta) with the incentives provided in the special economic zones by the central

government and the huge (considered unlimited at the time and until recently) and increasingly mobile migrant work force from inland China, where some provisions of the strict household registration system (户口, hùkǒu) had been loosened.

The most successful among them have managed to excel in the domestic markets or to become successful OEM manufacturers in global modular production networks (Gereffi / Humphrey / Sturgeon 2005, 91).

Drivers of engagement were sometimes religious (Christian or Buddhist) backgrounds, national empathy for fellow Chinese, pre-revolutionary family ties or simply worldly ethics of hard work and ambition for success, for instance when coming from the dense and highly interactive business environment of Hong Kong, which at that time had reached its spatial limits for industrial development.

As the production capital stock in the export clusters was built up and the capabilities of the work force and management got more advanced, however, pioneers also increasingly emerged from within Mainland China. They furthermore competed with the early overseas-based pioneers.

As they settled in, the imported work ethics of the overseas-based pioneers combined with the institutionalised rules and restraints in socialist China, and subsequently met the requirements in terms of rules and standards emanating from the global value chains.

The pioneering businesses can often be associated with the labour-intensive, export-oriented light industry clusters that, in aggregate, spurred the Chinese economic miracle as much as China's ambiguous image abroad as 'workshop of the world'. Therefore, policies on 'good business' have been brought to the Private Business Pioneers from outside, via supplier-linkages in the global value chains. The senders of those policies were OECD-based lead companies and the external discussions surrounding their value chains, within which OECD actors repeatedly discussed the Chinese labour conditions with references to the history of European industrialisation: many voices compared Chinese 'sweatshops' to 'Manchester-capitalistic' conditions of exploitation during the pioneering and 'primitive accumulation' stages of the OECD world's industrialization.<sup>75</sup>

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75 See e.g. Auret van Heerden, CEO of the Fair Labour Association (FLA): "*Conditions in China became comparable to the period in the West from the Industrial Revolution in the 18th century up to the Second World War*" (Clark 2008, 13).

Even if these pioneers are nowadays rarely part of the picture when talking of those emerging global players from China that are now listed among the most important companies in the world, they provide an important element of the amalgam of the Asian Business Drivers: By applying their business ethics and values, they formed pivotal aspects of the conception, and established the founding myth, of post-revolutionary private business in China.

#### 4.2.2.2 Cases

Beijing Air Catering Co. Ltd. (BACL) was founded by Dr Annie Wu Suk Ching, together with her father in 1980, as the first joint-venture company in Mainland China, holding the prestigious joint venture business license No. 001. Dr James Tak Wu was a successful Hong Kong businessman who ran a chain of restaurants, nightclubs, cinemas and theatres (A01/10) that continues to exist today (Maxim's Catering Ltd.). Ms Wu, who still presides over the business, is one of the most famous businesswomen in Hong Kong, bearer of the British Hong Kong-rooted honorary titles 'Silver Bauhinia Star'<sup>76</sup> and 'Justice of the Peace'<sup>77</sup>, and at the same time member of the Chinese People's Political Consultative Conference (CPPCC), an important advisory body in the institutional set-up of the People's Republic.

The equity of the joint venture company is shared between the state-owned Air China Group (60 per cent) and Beijing Air Catering Co. Ltd., with its shareholders Maxim's Catering Ltd. (22 per cent) and (the German) LSG Skycheffs (18 per cent). With 1,600 employees, BACL produces 55,000 in-flight meals per day on their premises at Beijing capital Airport. Very recently, BACL opened a new facility that is located closer to the new Terminal 3. BACL's customer base is diversified in 27 foreign and 6 domestic airlines – a state, which renders the company selling to global markets well beyond the status of a captive supplier.

Yangtzekiang Garment was founded in 1949 by Dr Chan Sui Kau. Chan bears the 'Grand Bauhinia Star'<sup>78</sup> and also the title 'Justice of the Peace'.

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76 The 'Silver Bauhinia Star' is the second rank in the order of the Bauhinia Star honours system in Hong Kong.

77 'Justices of the Peace' in Hong Kong, originally denoting lay judicial ranks in the British Empire, are titles of honour given by the Government to community leaders.

78 The Grand Bauhinia Medal is the highest award under the Hong Kong honors and awards system.

He is regarded a pioneer of Hong Kong's globalised textile and garment industries, who established export trade with Southeast Asia, Europe and the US as early as the 1950s and listed the business on the Hong Kong stock exchange in 1969 – the first one in the industry. Today YGM's stock is widely held.

In 1980, YGM entered into its first joint venture investment in Mainland China in Wuxi (Jiangsu). Besides this factory, YGM's production capacities today include three plants in Panyu (Guangdong) as well as factories in Hong Kong, Bangladesh and Cambodia. Having started off with 20 sewing machines, the YGM Group has become a global business, employing 15,000 staff engaged in manufacturing garments and textiles, as well as in sourcing, wholesaling and retailing. The YGM Group turned over US\$ 98 million in 2007 (HKD 755m; YGM 2007, 2) in supplying to international brand companies, but also by retailing a number of own garment brands.

With regard to their ownership, outreach and value chain governance – and considering their distinctive roles in pioneering private business activity in China – both companies, BACL and YGM Group are considered Asian Business Drivers in the frame of this study.

#### 4.2.2.3 Similar cases

There are numerous companies whose history is along the lines of the mentioned Private Business Pioneers. Gold Peak Batteries International Ltd. is an example of a private business with Singaporean origins that ventured into China to enter global retail markets from there. Examples for mainland-born (second generation) Private Business Pioneers – who nowadays far outnumber the above-mentioned cases in terms of size and outreach – are the technology providers Huawei Technologies Co. Ltd. and Zhong Xing Telecommunication Equipment Company Limited (ZTE). Both companies were founded (in 1988 and 1985, respectively) and headquartered in the special economic zone Shenzhen, and today are among the global leaders in the IT and telecommunications infrastructure industry. Yet a next generation of private business can be exemplified by companies like Nine Dragons Paper (Holdings) Ltd. (founded in 1995). As the largest cardboard producer in China and one of the biggest in the world, it is headquartered in Dongguan (Guangdong), listed in Hong Kong and incorporated in Bermuda. The founder and CEO, Ms Zhang Yin, originates from Guang-

dong province and started her business career in the US and Hong Kong. Suntech Power, the largest solar module manufacturer in the world, listed in New York, was founded in 2001 by Shi Zhengrong, a Chinese-born Australian.

With today's background of experience that includes China's steep economic development trajectories of the past 30 years, it is almost trivial to talk of multi-billion Chinese private businesses, driving the global markets in their industries. But post-revolutionary private business in China started with individual risk-takers who carried machinery from Hong Kong to the Chinese mainland in the late 1970s. In assessing today's business drivers' impact on the global discussions on good business, it is therefore advisable to observe the values and attitudes of the pioneers.

### 4.2.3 Supply end drivers: Foxconn (Hon Hai Precision Industry Co. Ltd.)

#### 4.2.3.1 Drivers and dynamics

“The Pearl River Delta, this is no longer just an area of manufacture. This is an area of very rich companies now, who see that: we can make a lot of money manufacturing, for instance, weighing scales; but we can make a hell of a lot more money selling them in England ourselves! But we can't do that using the manufacturer brand, so we buy the brands! We make the best weighing scales in the world for some of the best firms in the UK and Europe – let's buy them” (E04/32).

Some of the most successful companies in China have shown that patterns of value chain governance are indeed not static (Gereffi / Humphrey / Sturgeon 2005, 96). So far, the value chain perspective on North-South economic relations had implied that the over-balance of bargaining power was invariably on the side of the actors in developed countries: “*One of the key findings of value chain studies is that access to developed country markets has become increasingly dependent on participating in global production networks led by firms based in developed countries*” (Gereffi / Humphrey / Sturgeon 2005, 99). Neither developing countries' domestic markets, nor developing country supplier-driven value chains played a role as parameters in value chain analyses. The notion that drivers of change come from developing countries is a relatively new one, associated above all with the Asian Drivers of Global Change.

Thus, a more differentiated view of China’s supplying industry is called for. The dynamic analysis thereof reveals that bargaining power at the end of some global value chains is shifting in favour of Chinese suppliers. These shifts are caused by economies of scale, combined with asymmetric distribution of information.

Economies of scale in the supplier company can develop, whenever a supplier in relational or modular value chains climbs – within the buyers’ regime of requested product specifications and codified production processes – to a level of efficiency other suppliers can not keep up with. The other suppliers – particularly in the light industry sectors, in which purchasers discriminate price differences of a few percentage points – will then exit the supply chain. But more importantly, the choice of options for different suppliers on the side of the buyer will decrease. Tight consumer markets compel the purchasing departments to buy at ever-lower prices, directing them to the most efficient scale-supplier. The concentration of orders on the latter will further boost the scale-supplier’s ability to build up capacities to again become more efficient – and the cycle repeats itself, starting from a higher base level.

There are reports of incidences where this dynamic has already lead to manifest increases in bargaining power: A large-scale shoe producer in the Pearl River Delta, who produces for the top 40 shoe brands in the world, was visited by the purchasers of a customer, a global sports brand. Their attempt, however, to renegotiate and lower per unit prices – a business as usual-procedure in buyer-driven value chains – had simply been rejected by the producer. “They said ‘Go away!’ They called their bluff! And [the customer; jw] sort of went away to re-think. The bargaining power is shifting and it’s the tail wagging the dog” (E04/22).

Another aspect is that information asymmetries, persisting despite of the buyers’ regimes of specifications and codified processes, can sometimes be used by the producer in strategic ways,<sup>79</sup> e.g. if the supplier – as seen in the quote at the beginning of this chapter – wants to get direct access to the con-

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79 In fact, standardising of processes and technical features of products has meant diminishing information asymmetries between the brand and the producer – thereby reducing the need for “explicit coordination” (Gereffi / Humphrey / Sturgeon 2005, 82). By codifying product specifications and processes, and transmitting this production information to far-away production sites, has made the parallel revolutions of outsourcing and brand value (s. chapter 1.2) possible in the first place.



sumer market by buying the brand it produced for before. “These [supplier; jw] companies are becoming big and profitable. And they have seen how much these brands order. So they know the business perfectly well. They know how much they’re selling because they know how much they are producing for them, actually they know more about the business than [the brand company; jw]! They know more about the cost of the business than [the brand company; jw] because [the brand company; jw] is not quite sure about how much it costs to produce that kind of weighing-scales in China. They have got a pretty good idea, right, but they’re not really sure. But the supplier knows” (E04/27).

These are examples for Supply-End Drivers, which in the course of maturing within the OECD-led chains, acquired significant bargaining power, thus driving certain features in their industry on a global scale. Most interesting in the frame of this study is, to what extent they are also driving the global discussion on ‘good business’ in their industries.

#### 4.2.3.2 Case

One of the sectors in which the phenomenon of Chinese Supply End Drivers can be observed most conclusively is the electronics industry. Very significant parts of the computers, laptops, cell phones, portable music devices, storage devices, printers or screens etc – or at least indispensable components within those products – are produced by OEM manufacturers in China.

Not long ago, this market had been dominated by US firms like Flextronics (headquartered in Singapore; Fortune Global 500 rank 275), who maintain large production sites in 13 cities in China. But recently, a new player called Foxconn has become the largest electronics manufacturer in the world. Foxconn is the trade name for the Taiwanese Hon Hai Precision Industry Co. (Ltd.), which is listed in London and Taipei. Foxconn rank 109 in the Fortune Global 500 list and had revenues of US\$ 51 billion in 2007 (Fortune Global 500), employing about 500,000 staff in China. The CEO and biggest shareholder, Terry Guo Tai Ming (郭台銘), is Taiwan’s richest man (A202/74). According to their own figures,<sup>80</sup> Foxconn grew exponentially (more than 50 per cent CAGR) since 1996, making them an impressive winner of the Asian crisis of 1998, in which many western investors in Asia suffered losses.

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80 See: <http://www.foxconn.com/PullulateCourse.html> (accessed 27 Nov. 2009).

Foxconn's customers include all major consumer and office electronics brands such as Apple, Dell, Hewlett Packard, Sony, Motorola, Nokia etc. Nowadays, every mobile phone in the world uses specific modules that have been produced by Foxconn (A0201/84).

In their Long Hua county plant in Shenzhen, established in 1988 (now dubbed "ipod city"), Foxconn employs about 270,000 staff. Together with the staff of Huawei, the two companies incorporate the majority of the population in Long Hua County and the corporate security guards far outnumber the county police force (A0201/65). Foxconn continues to expand rapidly in China, with plants in Shanghai, Shanxi and Shandong; currently, they set up a spacious plant in Wuhan, where they will be employing 200,000 staff within two years (P71/78).

But how did Foxconn accomplish to change the market at such an impressive pace and scale? According to the "Foxconnian" business model, important factors are speed, quality, engineering services, flexibility and monetary cost saving.<sup>81</sup> Maybe more enlightening, though, is a concept that Foxconn calls "eCMMS" (e-enabled Components, Modules, Moves and Services). "eCMMS is the vertical integrated one-stop-shopping business model by integrating mechanical, electrical and optical capabilities altogether. It covers solutions ranging from molding, tooling, mechanical parts, components, modules, system assembly, design, manufacturing, maintenance, logistics etc. Through the eCMMS model, Foxconn's Southern China campus is not only the world's largest 3C [Computers, Communication and Consumer Electronic Products; jw] manufacturing base, but also *the shortest supply chain* at the same time."<sup>82</sup>

Another clue seems to be the trustworthiness of the OEM producer: If Foxconn would not be effectively protecting its costumers' intellectual property, it would hardly be conceivable that high-end technology brands commissioned the production of their latest cutting-edge products – such as, e.g. the latest generation of Apple's iPhone – to a manufacturer, knowing full-well that it also produces for one or more of their immediate competitors. "They manufacture for Nokia and Motorola, but the plants in Foxconn, where they produce for the two brands are next door to each other. So the

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81 See: <http://www.foxconn.com/ManageConcept.html> (accessed 27 Nov. 2009).

82 See: <http://www.foxconn.com/ManageConcept.html> (accessed 27 Nov. 2009, italics inserted by jw).

reputation they want to have is that they manufacture for both of them with the same efficiency. But they don't share the information among each other, even inside Foxconn. The workers of the different plants don't talk to each other. They have security gates. Even for some Foxconn managers, they are not allowed to talk about technical issues; they are not allowed to disclose technical features" (A0202/76).

Thus, multiple parallel highly integrated and therefore technology-intensive production lines are managed without information leakages between them. So Foxconn is in fact many high-technology companies within the same company, realising efficiency synergies on production without hurting the confidentiality requirements of the customers.

In the frame of this study, Foxconn is considered a privately-owned Asian Business Driver with a clear global outreach and a clear impact on the value chains in its industry: Even though Foxconn is a labour-intensive enterprise with high exposure to the global discussion on 'good business', it is unthinkable that Foxconn would be pushed by OECD firms in terms of so far captive patterns of standards proliferation (s. chapter 1.2) – even though among their customers are some of the most prominent and therefore most vulnerable brands.

The fact that Foxconn is a Taiwanese-invested company, however, has implications for the research. What Foxconn can do and cannot do in terms of its conduct in society, again, is political business. In contrast to the SOMNEs, however, this implies the cross-straits political relationship between China and Taiwan.

#### 4.2.3.3 Similar cases

A similar case to Foxconn, though smaller and thus equipped with less say in the markets, is the Delta Group, also a Taiwanese electronics supplier that employs half of its 60,000 staff in China. The Chinese Top Victory Electronic (Fujian) Co. Ltd., and the Taiwanese INNOLUX Display Corp., together with the Danish TechView A/S – all of them are producing in China – share the large majority of the market for screens and TFT displays among each other (P02/19).

An example for a Chinese textile manufacturer that successfully established a brand in the Chinese domestic market is the company JOE ONE (CHINA)

CO., LTD. (九牧王),<sup>83</sup> a wholly Chinese-owned business that has been leading the domestic ranking for sales volume of trousers for five consecutive years (A0305/140).

## 4.2.4 New Global Brands: Lenovo Group

### 4.2.4.1 Drivers and dynamics

One distinct class of Asian Business Drivers in China comprises those companies that decided to enter the global markets with branded products. There are several related dynamics for this move that can be observed. As seen above, some strong OEM manufacturers use their intimate market knowledge strategically with the aim of taking over the higher-margin business in consumer markets, instead of selling to wholesalers or brand companies. The Taiwanese Acer Inc., for instance, a global brand that started off in 1976 as a local distributor of electronic parts, provides a successful example for this strategy.

The better-known examples for New Global Brands are those of Chinese companies that acquired business sections, including sub-brands, of OECD-based enterprises. When the Lenovo Group acquired IBM’s PC business, it not only got access to capacities, technologies and markets, but also became the owner of the well-established laptop sub-brand ‘Think Pad’.

Other Chinese brands, though less well-known in the OECD world, are no less globalised: Many second and third tier brands that have not yet been able to establish themselves in high-income markets, are already established in Asian or other developing country markets. Often, these companies encounter structures in those target markets that are similar to those in China – in terms of purchasing power and consumers’ priorities and expectations on the level of product engineering.

Many of the New Global Brands were built up within the Chinese domestic markets before going global (Fuchs 2007, 17 f.). And not dissimilar to the Japanese and Korean brands that ‘went west’ in the 1970s, 80s and 90s, the Chinese brands have to fight a low price-low quality nimbus attached to them.

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83 Whether it inspired the name or not, Joe-1 was the American code name for the USSR’s first nuclear weapon test in 1949 (named with reference to Joseph Stalin).

The common feature that makes the New Global Brands from China relevant for the purposes of this study is that brand value – as accompanying increased transnational industrial organisation and increased division of labour in global value chains (see chapter 3.2), has been one important entry point in the early ‘good business’ discussion in the OECD world. The experience of OECD-based multinational businesses is that companies entering the spheres of intangible business value by selling branded merchandise, have to protect their brand value against contestation from non-market stakeholders such as the globally connected media, netizens and civil society actors. The ability to make use of, for selling purposes, the consumers’ imagination through marketing and PR investments in brand capital (Klein 2002, 30) can literally diminish overnight, if the consumers become aware of scandals connected to the brand.

Besides quality issues, risks for brand value often emanate from social or environmental issues occurring at some point along the global value chains of the brand company. Whereas in the past, value chain issues for OECD firms in many instances originated in China, but stirred up consumers in the West, the picture is changing completely for brands from China: In order to protect their brands, new businesses from China have to manage not only a multitude of new stakeholders on a global scale, but simultaneously risk-manage their value chains, upon which the new stakeholders’ attention will almost certainly fall.

#### 4.2.4.2 Case

The Lenovo Group is a ‘global challenger’ according to the Boston Consulting Group’s listing (Aguilar 2006, 7). Employing 23,000 staff worldwide, Lenovo is the world’s fourth largest personal computer manufacturer, realising about US\$ 13 billion in sales (2007).

Lenovo is one of the most globalised to be found among the Chinese brands – according to its company structure, its outreach to global markets and its philosophy. “You would think: Beijing, the home market, Chinese company, 35 floors, the Lenovo logo on the top of the building. On the top, there is chairman Yang’s office, and on the very top a meeting room where all the big guys sit – no, far wrong! Our Human resources (HR) Senior Vice President is based in Seattle, the CEO in Singapore, the EMEA [Europe, Middle East, Africa; jw] boss in Paris, the EMEA HR boss in London. The

Chinese chairman of the board is based in Raleigh, North Carolina, the designers are in Japan and China" (A0801/50). In addition to four locations in China, Lenovo also manufactures at two locations in India, one in Mexico and one in Poland. Its sales are managed from locations in the US, Europe and Asia (Beijing and Singapore).

Yang Yuanqing, the co-founder and Chairman of the Board of Lenovo, is the Bill Gates of China. Similar to the founding of Microsoft, there are myths surrounding the early days of Legend Group Ltd. (联想 Lianxiang). The company was established in 1984 by Yang and his colleagues of the Institute of Computing Technology at the Chinese Academy of Sciences. Having started off with two rooms inside the gatehouse of the institute in Zhongguancun, 'Beijing's Silicon Valley', Yang is now one of the most influential persons in the People's Republic of China. The original idea behind Legend was to invent a device for entering Chinese characters into personal computers: the 'LX-80 Lianxiang Han Card'. This idea won a prize of RMB 200,000, which was then used as start-up capital for the company that set off to make the PC 'more Chinese'. In 2001, Legend appointed Yang Yuanqing President and CEO. Ever since, the company increasingly steered towards a global vision, re-naming its English name to Lenovo (Le Novo = new legend) in 2003 and acquiring IBM's PC business in 2005.

The relation between the Chinese government and Lenovo Group is an ambiguous one. On the one hand, the group stresses its global set-up, implying that they do not seek guidance from the Chinese government. On the contrary, together with the most important businesspeople in China, Yang is invited on a regular basis to provide views and advice to the government (A0801/87). On the other hand, the government-owned Chinese Academy of Sciences has been involved in the company ownership from its onsets. Nowadays, the academy holds the majority share of Legend Holdings Ltd. (presided over by the founding Chairman of Legend Group Ltd., Liu Chuanzhi), which in turn holds 45 per cent of the Lenovo Group's equity (Lenovo 2008, 45). In effect, the Chinese government is the single largest shareholder in one of the most prominent private global brand companies from China.

Observations on Lenovo and other New Global Brands from China are highly relevant for the global 'good business' discussion. In order to protect their newly established brand, companies need to address a multitude of new transnational stakeholders (Altenburg / Weikert 2008, 222). If they miss out

on this, they risk repeating the mistakes of OECD firms such as Shell (Brent Spar) or Nike (child labour in Pakistan) in the earlier global ‘good business’ discussion (see chapter 3.1.1).

#### 4.2.4.3 Similar cases

An example of a company that built up a global brand based on joint venture is the white goods manufacturer Haier of Qingdao, which derived its name from its former German joint venture partner Liebherr.<sup>84</sup> Haier sells and owns manufacturing facilities in various parts of the world (E04/96).

Examples of Chinese brands established in developing country markets are the consumer goods brands TCL and Xia Xin. TCL of Huizhou (Guangdong) has designed an anti-thunder system for the Vietnamese market, because Vietnam is often hit by thunderstorms (E03/64). Xiamen Xia Xin Electronics Co. Ltd. has invested in South Africa – to produce black and white TV sets. Their products are very well received among poorer consumers in South Africa. “If you travel in South Africa you can see their advertisements in the streets” (E03/65).

A very prominent sports goods and lifestyle brand that is currently going global is Li Ning. Founded by the most famous Chinese Olympic athlete by the same name who won six medals in gymnastics during the 1982 Los Angeles Games, Li Ning is a very famous sports gear brand in China. Like Lenovo, Li Ning has been most visibly measuring up to established global brands as sponsors during the Beijing Olympics 2008. Li Ning himself lit the Olympic flame at the climax of the opening ceremony on 8 August, 2008. Currently, Li Ning enters the global markets for sports goods and apparel, e.g. through sponsorship agreements with famous players of the US National Basketball Association.

### 4.2.5 New Global Sourcers: Zhejiang Huayou and Chalco (Aluminium Corporation of China)

#### 4.2.5.1 Drivers and dynamics

China’s economic development brought about further demand for entering the global economic frameworks of action. From near self-sufficiency in

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84 The Chinese name for “Qingdao Liebherr” written in pinyin: qing dao li bo hai er.

strategic energy commodities before, its energy-intensive growth brought China up to third place of the largest importers of oil (van der Wath 2008, 7). The drivers of China's importing activities are above all the SOEs, which meanwhile became multinational enterprises (see 4.2.1). By mid 2006, over 800 Chinese companies had invested on the African continent, from which China imports 30 per cent of its oil demand (Fues / Grimm / Laufer 2006, 1). China already is the African continent's second largest trade partner after the US (The Economist, 17 October, 2009, 46). Mineral resource exploration is also the major reason behind rapidly expanding economic relations between China and Latin America, where Chinese companies run oil-related investments, e.g. in Bolivia, Ecuador, Argentina, Colombia (Latin Business Chronicle 2007; The Economist, 15 August, 2009).

Although China's resource needs are clearly related to the rise of exports *from* China to markets around the world, the search for resources as a motive for political and business engagement in Africa and Latin America has been subject to contention in recent years, above all in the area of development policy (Gaye 2006; Wolff 2006; Fues / Grimm / Laufer 2006; Altenburg / Weikert 2006; Dieterich 2007; Fues 2007; Chahoud 2007; Pehnelt 2007; Fischermann 2009).

An aspect that is less often discussed, so far, is a similar move of Chinese companies to resource-seeking investments in OECD countries. In countries like Australia, for instance, the Chinese engagement in mineral resource exploitation is already very significant. And whereas the good governance standards and regulative environments in some developing countries where Chinese extractive industries operate are weak – with Sudan, Zimbabwe and Angola as the prime examples – the requirements in terms of standards and policies posed to Chinese investment projects in the OECD world are usually comprehensive. Many standards applied to investment projects are higher in the OECD than both the investors' home markets in China and their developing country projects. This creates pressure on the Chinese companies to align their policies.

In principle, this pressure had also been in place for Chinese companies operating in OECD-driven value chains. *“Keesing and Lall (1992) argue that producers in developing countries are expected to meet requirements that frequently do not (yet) apply to their domestic markets. This creates a gap between the capabilities required for the domestic market and those*



*required for the export market*” (Gereffi / Humphrey / Sturgeon 2005, 85). However, this gap is exposed to the scrutiny of the transnational stakeholders to a much higher degree for investments inside OECD countries than for supplier companies that operate from inside China (P2502/246; Wang Z. 2007), 27).

As social and environmental concerns are important features of green field investment projects, all the more in the extractive sector, the activities of New Global Sourcers from China provide interesting laboratories for observing the impact of the Chinese Business Drivers on the global discussion on ‘good business’.

#### 4.2.5.2 Cases

Two very different companies are surveyed in order to highlight the dynamics for the New Global Sourcers from China: One is a medium-sized manufacturer in hydro metallurgical smelting of cobalt, nickel and copper, the other one a big state-owned heavy industry company. Whereas for the former, particular attention is paid to its investment in the DR Congo, the latter is interesting for its development of a recent investment project in Northern Australia.

Zhejiang Huayou Cobalt Nickel Materials Co. Ltd. is located in the Tongxiang Economic Development Zone, close to the capital of Zhejiang province, Hangzhou. It realised revenues on sales of US\$ 1.25 billion in 2007 (Huayou 2007), employing 1400 staff. Among others, Huayou produces Cobalt Oxide for further processing in batteries and rechargeable devices. Thus, Huayou is part of the supply chain for global cell phone brands, such as Nokia. Huayou maintains branches in South Africa and DR Congo, as well as representative offices in Zambia and Tanzania. At present, 80 per cent of all cobalt and 50 per cent of all copper and nickel consumed in China are imported, with Africa being the origin of large parts of that (Huayou 2007, 11). Thus, Huayou is one of the corporate actors in China pulling resources from Africa. The CEO Chen Xuehua met PM Wen Jiabao during his Africa trip in 2006, on the occasion of which Wen praised *“Huayou’s intelligent exploration and cultivation in Africa”* (Huayou 2007, 30). As a Sino-foreign contractual joint venture, Huayou has global stockholders, e.g. a Belgian governmental fund (A0501/56). In order to raise capital to further invest in their operations in African countries, Huayou is at the moment planning to do an IPO.

The Aluminium Corporation of China Limited (Chalco) is one of the world’s largest producers of alumina and China’s largest producer and supplier of alumina and aluminium. The company is owned by the Chinese state, and directly administered by the central government (A0902/3). Chalco is considered a “*global challenger*” (Aguiar 2006) ranking 499 on the Fortune Global 500 list. Its revenues were US\$ 17 billion in 2007 (Fortune Global 500). Xiao Yaqing, a Party Secretary, is the CEO of Chalco as well as Chairman and CEO of Chinalco (its Hong Kong-listed holding company), employing 240,000 staff. Chalco was established as a joint stock-limited company in the People’s Republic of China on 10 September, 2001, by way of promotion by Aluminium Corporation of China (CHINALCO), Guangxi Investment (Group) Co., Ltd. and Guizhou Provincial Materials Development and Investment Corporation. It is listed in New York, Hong Kong and Shanghai.

Recently, Chinalco announced the acquisition, together with the US-American company Alcoa, of a 12 per cent strategic stake of the British mining group Rio Tinto. In 2007, Chalco had already purchased 91 per cent of the shares of Peru Copper Inc. in order to gain access to Peru’s Toromochoco copper deposits. Other overseas projects include the construction of a 1 million tons aluminium smelter in Saudi Arabia and further development projects in Russia, Vietnam, Mongolia, Guinea, Burma and Indonesia.

In March 2007, Xiao Yaqing and Anna Bligh, Premier of Queensland, Australia, signed a US\$ 3 billion agreement for the development of a bauxite extraction project in the Aurukun area, on Cape Yorke, Queensland (P11/18). “In Australia, of course, there are all sorts of hoops through which Chalco has got to go – it’s not like anywhere in Africa. This is a green field investment in a disadvantaged community – it might look like Africa – but the government is from an OECD country and it has all of the instruments in place to make sure that they behave” (P11/20).

#### 4.2.5.3 Similar cases

Out of 33 major outbound mergers & acquisition operations of Chinese companies since 2007 listed by ‘The China Analyst’, 25 targeted OECD-based companies (The Beijing Axis 2008, 25) and 10 of the OECD-bound ones were either full acquisitions or acquisitions of minority stakes in mining and oil companies. This involved the aforementioned SOEs Sinopec,

Sinosteel and Chinalco, and furthermore Shandong Nanshan Industrial Co. Ltd, Minmetals/Jiangxi Copper, Jinchuan Group Ltd., China Oilfield Services (COSL), the State Administration of Foreign Exchange (SAFE), and the private companies Western Mining, Cheung Kong Infrastructure Holdings (Hong Kong). While the smaller stakes in OECD countries, such as Chinalco's interest in Rio Tinto, fit in well with the Chinese government's overall strategy to gain access to technology, raw materials and skills without having to shoulder full responsibility over the operations (The Economist, 3 November, 2007, 74), the full takeovers of OECD firms imply the problem of having to adapt to global standards instantly without having had the chance to use home markets as testing grounds. These various forms of investment deserve special attention, as they are laboratories, within which the New Global Sourcers' strategies towards the global 'good business' discussion can be observed.

#### 4.2.6 Overview of cases

Table 6 provides an overview of the cases that have been introduced to in this chapter.

Obviously, very different companies are under observation here. However, the cases highlight different dynamics involving Asian Business Drivers with regard to their impact on the global discussion on 'good business': Looking at the *SOMNEs*, highlights the 'mixed mission' they have to accomplish – being an element of the structural organisation of a socialist society's set-up and a multinational enterprise at the same time. For the *Private Business Pioneers*, the most relevant elements of the analysis are the pioneers' values that are assumed to have become a part of the DNA of post-revolutionary private business in China. The question whether increased bargaining power also translates into increased interpretive authority with regards to global definitions of 'good business' is approached by looking at the *Supply End Drivers*. *New Global Brands* are scrutinised with regard to their efforts and capability to defend brand value in a transnational stakeholder environment. Finally, observations on the *New Global Sourcers* shines some light on the challenge faced by Asian Business Drivers to learn to reach up to the level of global standards in overseas investments, while never having had the chance to practice at home.

<b>Table 6: Overview of the cases of Asian Business Drivers</b>							
<b>Class of ABD</b>	<b>SOMNE</b>	<b>Private Business Pioneers</b>		<b>Supply-end Drivers</b>	<b>New Global Brands</b>	<b>New Global Sourcers</b>	
<b>Company</b>	Sinopec	BACL	YGM	Foxconn	Lenovo	Zhejiang Huayou	Chalco
<b>Ownership</b>	State-owned	Mixed ownership	Listed	Listed, CEO is principal shareholder	Mixed ownership	Mixed ownership	State-owned
<b>Mode of global outreach</b>	Sourcing	Supplying	Supplying	Supplying	Selling	Sourcing	Sourcing
<b>Revenues 2007</b> ( <sup>t</sup> =turnover 2007), US\$ bn	159	–	0.098 <sup>t</sup>	51	13	1.25	17
<b>No. of employees, in thousands</b>	334	1.6	15	500	23	1.4	240
<b>Headquarters</b>	Beijing	Beijing	Hong Kong	Taipeh	Morrisville, NC	Tongxiang (Zhejiang)	Beijing

Source: Own compilation

## 5 Re-defining ‘good business’ in the face of Asian Business Drivers of Global Change

As a sub-group of Asian Business Drivers, emerging global players from China in distinct and significant ways impact aspects of the global economy. Therefore, they are also expected to impact the global ‘good business’ discussion.

Having departed from this assumption, the empirical results of a survey conducted within the frame of this study draw a differentiated picture on

- the features of business legitimacy in the contemporary *Chinese domestic discourse* (empirical module 1);
- the practices of business legitimisation applied by Chinese global players (empirical module 2); and
- the patterns by which features of business legitimacy applied by Chinese global players (A) impact on the future definitions of ‘good business’ in the global economy (O’) (empirical module 3).

These different perspectives are developed by the three different modules of the survey. Empirical module 1 prepares the research by identifying and delineating a ‘Chinese variety’ of legitimate business in terms of its variance from the OECD benchmark. The results of this survey module constitute the ‘discourse type of (A) (dt A) in chapter 5.2.

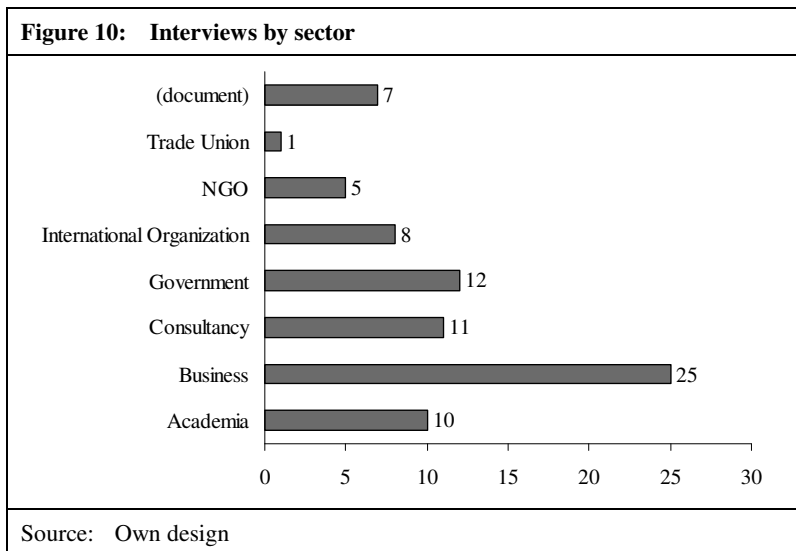
Empirical module 2 scrutinises whether the variety found at the discourse level is indeed action-guiding for the five different cases of Asian Business Drivers, thereby developing the ideal types (A), which incorporate the Asian Business Driver’s legitimisation patterns.

Whereas the two former empirical modules engage in comparative analyses, empirical module 3 takes on a *processual* perspective, revealing dynamic patterns of impact between (A) and the future definitions of ‘good business’ in the global economy (O’).

### 5.1 Empirical data

The results of this study are based on ample empirical research conducted between 2006 and 2008, core of which were face-to-face-interviews with experts, businesspeople and stakeholders of the processes under observa-

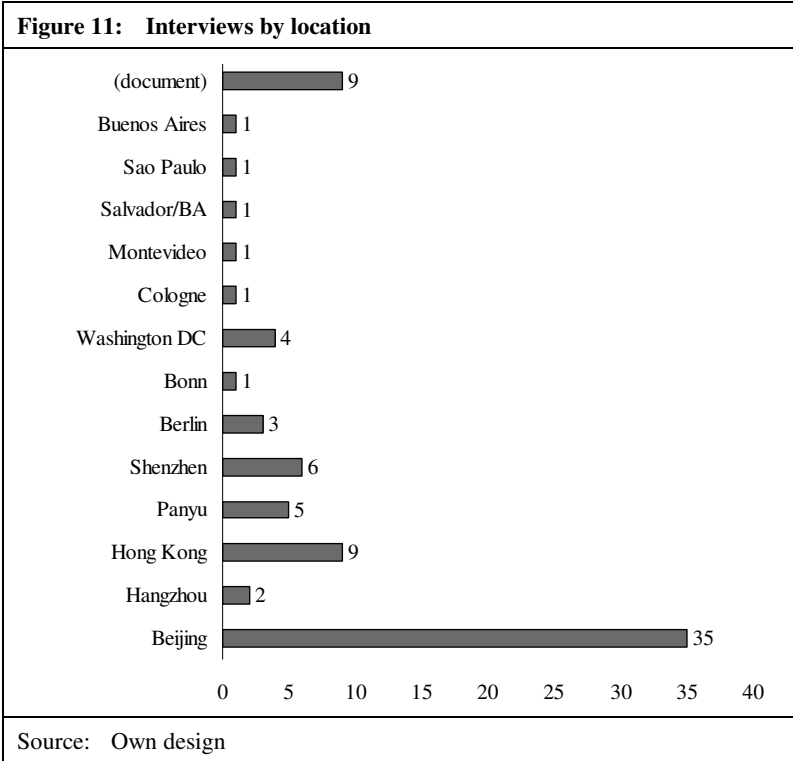
tion. Figures 10 to 12 provide an overview of the interview data according to the sectors the interviewees belong to (fig. 10), the interview location (fig. 11), and the number of interviews in each empirical module (fig. 12).



The full list of interviews and documents is provided in annex 1. Figure 10 shows that the majority of interviewees are businesspeople, although all other relevant sectors are covered. As is shown in figure 11, the majority of the interviews have been conducted in five different locations in China, with a geographical focus on Beijing.

Figure 12 illustrates the interviewees in each module: the group of experts, the businesspeople that informed the case studies (see chapter 5.3 below), and the group of interviewees who were involved with the particular process under observation here, the reception of SA8000 in China (see chapter 5.5).

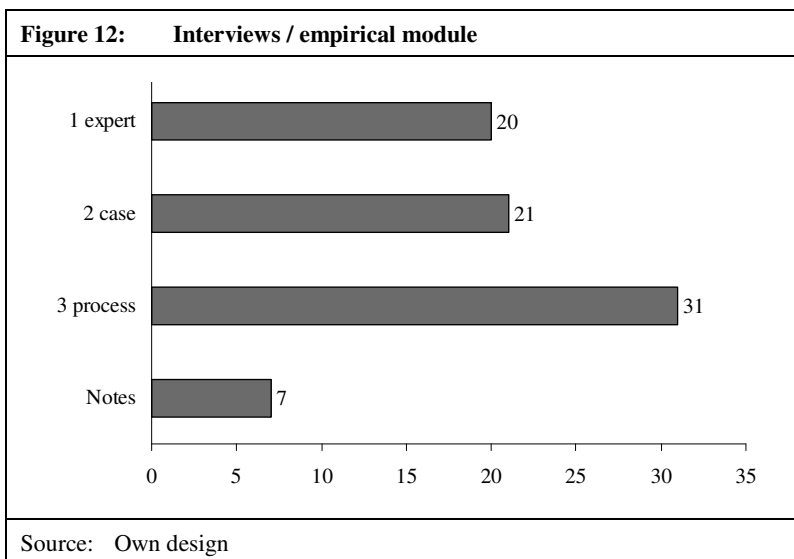
The qualitative interview data has been analysed using the software Atlas.ti (see 2.4.2), according to the Grounded Theory “style of research” (Lonkila 1995; Strübing 1997; see 2.4.1). Thus, 175 different codes contained in 27 code families have been assigned to 2549 pieces of text in the hermeneutic



unit, established using Atlas.ti.<sup>85</sup> Table 7 displays the frequency of occurrence of codes according to the modules (columns) and across the interviews grouped in the three different target groups.

As is also shown in table 7, the flexibility of the applied set of qualitative methods has been made use of: As expected, the hermeneutic unit derives most information (coded pieces of text) on the domestic discourse in China from the interviews with experts (E02-E23), most information on the generation of ideal-types from the business interviews (A01-LA0101) and most information on the process analysis from the interviews with the process stakeholders (P01-P29). The grey-shaded totals-cells in table 7

<sup>85</sup> The comprehensive list of codes applied is provided in annex 6.



point this out. However, pieces of information deemed relevant, for instance, for module 2, despite having been provided by the target group ‘experts’, nevertheless access the analysis of module 2.<sup>86</sup> The same applies for overlaps of other modules and target groups.

Together with the additional information on the survey provided in the annex – it is possible to return to table 7, whenever reviewing the empirical ‘grounded-ness’ of the results.

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86 It is certainly conceivable that, e.g. a senior researcher considered a (module 1) expert in this survey, nevertheless has sufficient experience to inform with authority on business policies – for instance when she or he has worked in the private sector in the past.



<b>Table 7: Overview of coded interview data</b>		<b>Code assignments according to code family...</b>		
<b>Empirical data</b>		<b>'Discourse analysis' (Module 1)</b>	<b>'Ideal type generation' (Module 2)</b>	<b>'Process analysis' (Module 3)</b>
<b>Expert interviews</b>	E02	2	0	0
	E03	10	12	19
	E04	30	38	51
	E05	16	1	6
	E06	24	1	1
	E07	4	1	6
	E09	2	0	0
	E10	7	7	17
	E11	31	19	13
	E13	1	19	9
	E14	0	13	0
	E15	2	0	0
	E16	5	0	1
	E17	0	2	6
	E18	0	2	0
	E19	3	8	1
	E20	2	12	16
	E21	8	0	0

<b>Table 7 (cont.): Overview of coded interview data</b>		<b>Code assignments according to code family...</b>		
<b>Empirical data</b>		<b>'Discourse analysis' (Module 1)</b>	<b>'Ideal type generation' (Module 2)</b>	<b>'Process analysis' (Module 3)</b>
<b>Expert interviews (cont.)</b>	E22	10	0	0
	E23	2	1	4
<b>Total</b>		<b>159</b>	<b>136</b>	<b>150</b>
<b>In-depth company interviews</b>				
<b>In-depth company interviews</b>	A01	0	7	2
	A0101	0	9	1
	A0102	0	9	3
	A0103	1	47	0
	A0201	17	17	0
	A0202	3	58	0
	A0301	3	1	1
	A0304	6	118	24
	A0305	17	46	18
	A0306	2	0	0
	A0307	0	3	0
	A0401	3	9	1
A0501	9	67	20	
A0601	6	67	6	

<b>Table 7 (cont.): Overview of coded interview data</b>				
<b>Empirical data</b>		<b>Code assignments according to code family...</b>		
		<b>‘Discourse analysis’ (Module 1)</b>	<b>‘Ideal type generation’ (Module 2)</b>	
		<b>‘Process analysis’ (Module 3)</b>		
<b>In-depth company interviews (cont.)</b>	A0801	11	42	1
	A0802	6	32	1
	A0901	4	1	1
	A0902	12	126	0
	A0903	1	17	0
	O0101	3	38	1
	L-A0101	9	1	2
	<b>Total</b>	<b>113</b>	<b>715</b>	<b>82</b>
<b>Expert interviews (Process stakeholders)</b>	P01	2	4	17
	P02	3	0	0
	P03	8	21	14
	P04	6	6	2
	P05	4	0	1
	P06	4	2	1
	P07	14	2	34
	P08	18	28	16
	P09	31	19	25

<b>Table 7 (cont.): Overview of coded interview data</b>																																						
<b>Empirical data</b>	<b>Code assignments according to code family...</b>																																					
	'Discourse analysis' (Module 1) <table border="1" style="display: inline-table; vertical-align: middle;"> <thead> <tr> <th>'Ideal type generation' (Module 2)</th> <th>'Process analysis' (Module 3)</th> </tr> </thead> <tbody> <tr><td>6</td><td>14</td></tr> <tr><td>10</td><td>19</td></tr> <tr><td>21</td><td>35</td></tr> <tr><td>3</td><td>8</td></tr> <tr><td>9</td><td>6</td></tr> <tr><td>23</td><td>30</td></tr> <tr><td>10</td><td>13</td></tr> <tr><td>6</td><td>26</td></tr> <tr><td>57</td><td>43</td></tr> <tr><td>22</td><td>46</td></tr> <tr><td>38</td><td>13</td></tr> <tr><td>17</td><td>19</td></tr> <tr><td>6</td><td>14</td></tr> <tr><td>29</td><td>52</td></tr> <tr><td>0</td><td>2</td></tr> <tr><td>5</td><td>3</td></tr> <tr><td>16</td><td>24</td></tr> <tr><td>0</td><td>0</td></tr> </tbody> </table>	'Ideal type generation' (Module 2)	'Process analysis' (Module 3)	6	14	10	19	21	35	3	8	9	6	23	30	10	13	6	26	57	43	22	46	38	13	17	19	6	14	29	52	0	2	5	3	16	24	0
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<b>Expert interviews (Process stakeholders) (cont.)</b>	P10																																					
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Table 7 (cont.): Overview of coded interview data			
Empirical data	Code assignments according to code family...		
	'Discourse analysis' (Module 1)	'Ideal type generation' (Module 2)	'Process analysis' (Module 3)
P2504	6	11	7
P27	4	9	1
P28	0	0	3
P29	0	0	2
<b>Total</b>	<b>378</b>	<b>253</b>	<b>490</b>
<b>Notes</b>			
N01	16	12	10
N02	1	0	0
N03	0	0	1
N04	4	15	9
N05	0	0	0
N06	0	1	0
N07	2	0	2
<b>Total</b>	<b>23</b>	<b>28</b>	<b>22</b>
<b>Over-all total</b>	<b>673</b>	<b>1132</b>	<b>744</b>
Source: Own compilation			

## 5.2 A new variety of (legitimising) capitalism?

As seen in chapter 3.1.1, the OECD world’s ‘good business’ discussion had been triggered by the departure of businesses from nation state-confined frameworks of action. Due to the distribution of bargaining power so far, the preferences of OECD stakeholders were enforced in the global value chains, while the preferences of non-OECD stakeholders played a negligible role in this.

*“Western stakeholders have assumed a moral duty to ensure responsible business practices in the developing world (and specifically in China) in the absence of stakeholders in the developing world doing it themselves. Strategically, this means that responsible practices in Asia (or China) are dependent upon foreigners pressuring foreign companies to in turn exert pressure over their suppliers and business partners. The assumptions underpinning this include the view that foreign direct investment overwhelmingly moves from the West to the East (e.g., from the US or Europe to China), and that the most important markets (where consumers have the most power) are in the West. (...) I suggest that none of these assumptions make sense any more” (Frost 2008, 3).*

Therefore, with the emergence of new drivers of change, the current scenario is changing rapidly. Preferences voiced by non-OECD stakeholders are no longer negligible factors in the global discussion. Does this constellation entail new varieties of legitimising business action in global capitalism? In order to be able to answer this, the Chinese domestic discourse on ‘good business’ and the changing stakeholder environment of Chinese businesses are being portrayed in the following chapters. These chapters take recourse to the survey among experts in empirical module 1.

### 5.2.1 Business policies: A genuine Chinese role model development is underway

Whereas in the past, examples of Chinese ‘sweatshops’ in many instances provided a blueprint against which the OECD-led role model discussion gained momentum, now, the development of *a genuine Chinese role model for ‘good business’* is underway. This is an ongoing process offering references to Chinese moral authorities, a certain tendency of discussants to interpret the role model from their own, specific angles, and including references to Chinese founding myths.

### 5.2.1.1 和 - the Chinese government's agenda of a 'harmonious society'

When at one occasion of Zhang Yimou's choreography of the opening ceremony of the 2008 Beijing Olympics the participants formed a Chinese character in their performance, it was 'Hé' (和), meaning harmonious (和谐, héxié) or peaceful (和平, héping) in composite words. This was a highly programmatic statement of the current political leadership's vision of China in the world. When Wen Jiabao and Hu Jintao assumed power in 2002, they developed a new socio-political vision that they called the 'harmonious society' (和谐社会, héxié shèhuì; P15/22). The idea has subsequently been institutionalised in the 11th five-year plan, drafted during the 4th plenary session of the 10th National People's Congress in March 2006 and the 6th plenary session of the 16<sup>th</sup> Central Committee of the Communist Party of China, convened in October of the same year. Wen and Hu are representatives of a 'new left' in China's political thinking whose apologist Wang Hui (汪晖) conceptualises modernisation – in contrast to the references of the 1990s' leadership inclined towards Western enlightenment – with recourse to *distinctly Chinese philosophy*, such as Confucianism (Blume 2009, 36). Consequentially, the 'new left' leadership occasionally stresses its position of being different from 'the West', such as congress chairman Wu Bangguo during the 2009 National People's Congress: *"We must draw on the achievements of all cultures, including their political achievements, but we will never simply copy the system of western countries"* (South China Morning Post, 10 March, 2009, A8).

Along with the aim of *"constructing a harmonious socialist society"*, the 11th five-year plan adopts the strategic concept of *"scientific development"*,<sup>87</sup> where *"the scientific outlook on development takes development as its essence, putting people first as its core, comprehensive, balanced and sustainable development as its basic requirement, and overall consideration as its fundamental approach"*.<sup>88</sup>

The leadership's focus on people, balance, and 'overall consideration' is clearly a response to the ubiquitous centrifugal forces in Chinese society

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87 See: [http://www.china.org.cn/20061h/2006-03/07/content\\_1160403.htm](http://www.china.org.cn/20061h/2006-03/07/content_1160403.htm) (accessed 27 Nov. 2009).

88 P2503/06, citing in the report of the 17th Congress of the CCP.

(E03/37), with the aim of bridging extreme social inequality.<sup>89</sup> “And so you have got all this government talk of social harmony. We can laugh about it. But unless there is social harmony, we are looking at disaster, no matter what! I think we’re kind of on the edge of it: factory protests, riots, petitioners in Beijing over the illegal acquisition of land, especially in the rural areas. There is incredible disgruntlement. The gap between the rich and the poor is growing; the Gini-Coefficient is looking very poor in China” (E04/60).

The ‘harmonious society’ concept embodies five goal conflicts to be balanced in the development of the Chinese society: urban *versus* rural development, eastern (coastal) *versus* western (inland) development, social *versus* economic development, internal *versus* external policy issues and human development *versus* the conservation of nature (P04/48).

Interestingly, each discussant adds new features to the concept: Issues of industrial relations are taken as a postulate to establish ‘harmony between employers and employees’ (P16/53); unions, employers and government work out a ‘harmonious labour relation plan’ (E20/17); if an environmental focus is assumed, then social and environmental goals should be balanced (N04/73); and if distributional equality is the goal, then the balance between rich and poor comes to the fore (N04/63). Other discussants extend the concept beyond China: “I think the harmonious society should not be limited to China, but should also be attributed to the relation between all countries in this globalised world” (A0601/67).

As it seems, the ‘harmonious society’ is both well received and open to interpretation by all stakeholders. Thus, it fulfills the function of a role model (‘Leitbild’), which provides guidance, while allowing for flexibility and adaptation to manifold societal concerns. In this, it shares the characteristics of other OECD world role models: “This is the same thing in China

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89 “The Party holds that the society is harmonious in general at present, but there still exist quite a few problems that impair social harmony. Aware of the theory that social conflicts may surface in large amounts when per capita GDP enters the 1,000-3,000 U.S. dollars stage, the Party’s policy makers have realised improper handling of the complicated situation will lead to economic stagnation and social instability. China’s per capita GDP surpassed 1,000 U.S. dollars in 2003 and reached 1,714 U.S. dollars in 2005.”; online: [http://www.chinadaily.com.cn/china/2006-10/08/content\\_703052.htm](http://www.chinadaily.com.cn/china/2006-10/08/content_703052.htm) (accessed 27 Nov. 2009).



or world-wide: we have a lot of discussion in China, but in the meantime, if you look at the international arena, there's no universal definition of these sustainable development issues either. There are some principles: the triple bottom line, the Millennium Development Goals or whatever. But a common challenge, I would say, is the implementation" (P23/59).

By virtue of this openness, the concept of the 'harmonious society' has soon been adapted to the newly initiated Chinese discussion on 'good business'. In November 2006, a senior government official<sup>90</sup> stated that Chinese entrepreneurs learned of Corporate Social Responsibility concepts through western importers, but were rather suspicious of them. There would be a problem of acceptance – they would call it 'harmonious business', instead (N04/24).

At the end of 2006, the government vision of a 'harmonious society' became intertwined with the emerging 'good business' discussion: "I listened to government official after government official on Saturday [18 November, 2006; jw] – 15 of them. Several things came up with each of them. One was social harmony and the role of business. Business needs to play a role in promoting, developing, maintaining social harmony" (E04/60). Ever since, most pieces of Chinese business communication to a wider domestic stakeholder audience feature references to the 'harmonious society'<sup>91</sup>.

It has to be noted that the 'harmonious society' is a slogan that, like many others, has been invented with the aim of stabilising the CCP's reign in a society, whose stability is acutely threatened (P23/48; P11/64): "Harmony means: I keep my power, but I am going to give you guys something in return" (P23/49). Thus, the Chinese government drives the discussion according to the customary top-down logic, moreover by means of its large SOEs (P19/27).

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90 Li Bi Qing, Director of Division, Department for WTO Affairs, MofCom, 15 November, 2006, 7th GTZ Roundtable on Social Standards and CSR, Beijing (own notes of the meeting).

91 "Corporate Responsibility Construction of Jiangxi Mobile Based on Harmonious Development Concept" (P2502/61); "In Pursuit of Harmonious Progress of People, Company, Society and Nature: Corporate Responsibility of China National Offshore Oil" (P2502/67).

Nevertheless, its wide reception among the stakeholders and its functionality as an accepted role model render the ‘harmonious society’ an important feature of the endogenous discourse on business legitimacy in China:

“I think you just need to have some kind of slogan to attract people’s attention and to make people think of this. Just like Olympics, there you have the slogan: ‘One World - One Dream’. Does it really make any difference? But you have a slogan to highlight the topic. And with that ‘harmonious society’ slogan people start to talk about social issues more openly than before” (P22/65).

### 5.2.1.2 Honesty as base ethical standard for business

As in other modernising societies, many Chinese bemoan that there is no shared moral basis in China and that nowadays the morale of egotism prevails (N01/179). In the sphere of business, egotism translates into damnifying by means of deceit (cheating), an experience that is frequently reported by stakeholders in China’s deficient regulative environment.

Cheng Siwei, a famous Chinese economist at Ren Min University, commented on the ‘good business’ discussion by proposing honesty as a base ethical standard for businesses. As a former Vice-Chairman of the National People’s Congress and among the first graduates of an overseas university (UCLA) from post-revolutionary China in 1984, Cheng is widely acknowledged as a moral authority and his voice is often heard in the socio-political discourse in China.<sup>92</sup>

During a CCTV1 programme in 2006, Cheng suggested that aspiring to high environmental and labour standards were a goal still too ambitious compared to Chinese realities. However, simple ethical standards could guide practical steps. “Now, no matter what the law says, you cheat, you cheat the law, your buyers, your customers. Cheng Siwei thinks this is quite logic for the Chinese businesses, because when you cheat your customers,

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92 Cheng also gained wide international attention in November 2007, when he suggested China should diversify some of its US\$ 1.43 trillion of currency reserves into “stronger currencies,” such as the Euro, to offset “weak” currencies like the Dollar – a statement that in fact impacted the exchange rate of the US-Dollar of that day; online: <http://blogs.wsj.com/marketbeat/2007/11/07/who-is-cheng-siwei-and-why-should-we-care> (accessed 27 Apr. 2011).

you make quick money; and the next day you re-register your business under another company name, come up with a new face and cheat your customer again! So he thinks the burning issue for the Chinese business is to meet the simple ethical standards: just don't cheat. That's very simple" (P08/53).

In the same pursuit of limiting too much ambition for economic success by basic ethical norms, the Chinese discussion on 'good business' goes so far as to paraphrase the programmatic slogans of the beginning of the reforms by Deng Xiaoping: Now, "to get rich *responsibly* will be glorious"<sup>93</sup>.

### 5.2.1.2 Economic development perspective: Soft competitiveness

Another authority in the domestic discussion on 'good business' is Wang Zhile, the Director General of the Research Center on Transnational Corporations in the Chinese Academy of International Trade and Economic Cooperation (CAITEC) – a government institution supervised by Ministry of Commerce (MofCom). Between 2006 and 2008 alone, Wang Zhile authored and edited three books on Corporate Social Responsibility: *Soft Competitiveness* (Wang Z. 2006), *Corporate social responsibility: Challenge and Opportunity* and *The Third Period of Improvement* (Wang Z. 2008). Wang conceptualises the 'good business' discussion as the latest of three periods of learning and upgrading that Chinese corporations have to undergo in order to become competitive in global markets (Wang Z. 2008, 9). In the period from the 1980s to the early 1990s, Chinese companies adopted advanced production technologies and equipment from abroad. The period from the early 1990s to 2000 marked the second period, in which Chinese companies implemented international management and corporate governance practices. Since China joined the WTO in 2001, China entered into the third upgrading phase: now, Chinese companies' awareness of their social responsibility was critical to retain the 'soft competitiveness'

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93 Zhou Wei Dong, China Director of Business for Social Responsibility, 15 November, 2006, at the 7th GTZ Roundtable on Social Standards and CSR, Beijing; authors own notes (N04/80). In a similar fashion, Cheng Siwei referred to an Engels quote during a speech on environmental protection: "As early as in 1886, the great thinker Engels pointed out that 'Let us not, however, flatter ourselves overmuch on account of our human conquest over nature. For each such conquest takes its revenge on us.'"; online: [http://www.cciced.org/2008-02/03/content\\_9642699.htm](http://www.cciced.org/2008-02/03/content_9642699.htm) (accessed 14 Jul. 2009).

needed to develop in size and strength (Wang Z. 2006, 3; Wang Z. 2008, 9; P2502/92). The analogy between 'soft competitiveness' and 'soft power' can hardly be overlooked: In order to accord to their increased global significance thanks to enhanced soft power, Chinese companies assume increased responsibilities by developing 'soft competitiveness'.

Through his series of books and speeches, Wang contributed significantly to the Chinese government's turn-around in the 'good business' discussion – from rejecting the foreign stakeholders' discussion of 'good business' as trade barriers, to publicly embracing the issue and, in fact, driving the role model of development ever since (P25/23). A case in point is his presentation during a symposium held by the EU-China Trade project on 12 July, 2006. "We had a symposium for the DG Enterprise and the National Development and Reform Commission (NDRC) about CSR. And this was the first time the NDRC publicly spoke about CSR. [...] But we had a lot of very sensitive discussions with them about what people were going to say. And eventually the NDRC said to me: 'Ok, we have a deal: you talk to all the foreign participants and impress upon them that they are not to embarrass China – and we look after the Chinese'. But what then happened, the only person that was a bit of a 'problem' was Wang Zhile: Wang Zhile arrived half an hour before the start and said: 'I have a few extra slides, can I just change my presentation?' And I said: 'Yes, of course'. And he put a new presentation focused on Africa, with screaming African women and coffins... He knew how to deal with the people from NDRC: He gave them an unadorned presentation because he just understands that China has to join in this game" (P11/17).

#### 5.2.1.4 Traditional approach: Confucian businessmen

A common statement made by many commentators in the recent discussion on 'good business' in China is that the discussion is *not* recent at all. Concepts for businesses' social responsibility were to be found in Confucianism, which emphasised honesty and integrity in both the political and in the economic system (Ho 2006, 1). In this sense, the Confucian businessman (儒商, ru shang) could serve as a genuine Chinese role model in the discussion. Confucian businessmen are entrepreneurs who "*harbour Confucian moral values and give primacy to moral principles over material gains [...] in the dialogue on the relationship between yi (righteousness) and li (profitableness)*" (Cheung / King 2004, 245). They had emerged as a social type

in the late Ming Dynasty (1368-1644), when scholars had left their designated career path of attaining titles in officialdom and instead became merchants (Cheung / King 2004, 247).

The intention behind staging the Confucian businessman in the discussion on modernising Chinese society is interesting for two different reasons: first, it again exemplifies a role model for ‘good business’ that is independent from foreign influences.<sup>94</sup> And second, the government, in its ‘harmonious society’ agenda, borrows heavily from Confucianism: “What the government is talking about is harmony. And harmony is a core value of Confucianism” (E13/45). Also Cheng Siwei’s stress on ‘honesty’ as basic Chinese business ethics can thus be related to the advent of Confucian philosophy in the official rhetoric. This way, ‘harmony’ not only provides a remedy for the government’s key concern of an instable and centrifugal society, but uses fragments of a philosophy that remains deeply rooted in many cultural forms in society – at a time, when socialist theories rapidly lose credibility for their lack of explanatory power in modernising China. “The advantage of using Confucian values is that people will obey the authority. One of Confucianism’s core values is the duty to obey authorities: you have to pay respect to your teacher, your parents, fathers, your seniors. So the government makes use of this in a very smart way” (E13/53).

#### 5.2.1.5 Historical reference: Zheng He going West

Zheng He (郑和) was an Muslim eunuch in the imperial palace and a diplomatic and commercial voyager who, 70 years before Columbus, navigated great distances in the Indian Ocean, even reaching the Africa. Zheng He’s fleet consisted of 317 ships – the largest of them were 400 feet long (compared to 85 feet for Columbus’ Santa Maria) – and 27,000 crew, making it the largest fleet assembled for a single voyage until the twentieth century (Stokes 2001, 516).

Almost forgotten through the centuries, the story of ‘Zheng He traveling the western ocean’ (郑和下西洋, Zhèng hé xià xī yang) has recently been re-dis-

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94 See e.g. <http://www.chinakongzi.com/2550/eng/business1.htm>; or: “They already had the same issue. Of course the merchants liked to make money and profits, but they had to acquire the profits in just ways. And also according to a harmonious relationship between heaven and earth and also between nature and human beings – we have all these old sayings, they are the cultural roots for CSR and also for the commercial codes in the Chinese enterprises” (A0401/38).

covered and celebrated with anniversaries, in history channels, academic and TV discussions, newspaper articles in-flight entertainment spots etc – in a contemporary Chinese society that is opening up to the world once again (Vougioukas 2007). The message transmitted by references to this historical figure is unambiguous: China opens up to the world in a genuinely Chinese manner, peacefully, in harmony with its partners and pursuing only commercial (that is: mutually beneficial) interest – even more so when talking about Africa (E03/37): “All empires have risen because of warfare, conquering and doing wars. But today you cannot wage a war. So how can a country like China today still rise without recourse to war? As the development concept of a peaceful rise, the harmonious society is part of how a nation in the world can co-exist in harmony in a New World Order. So the harmonious society is much wider than just the Chinese context. It’s the Chinese leadership’s project of how they see the world should be; a kind of a New World Order project according to Chinese visions” (O0101/47).

## 5.2.2 Stakeholder networks: Domestic institutional innovation and domestic stakeholders raising their voice

As any corporation has to respond to the demands directed towards them by their stakeholder networks (see chapter 3.1.1.4), Chinese businesses also have to. The changing domestic stakeholder environment provides another aspect – besides the ongoing role model of development – that hints to a distinct Chinese way of doing ‘good business’. In order to satisfy the demands, Chinese businesses first of all respond to their most important stakeholder, the government, whose claims are articulated in laws and regulation conveyed by government institutions. Currently, *new laws*, *new regulation* and *new institutions* are being formed in China. Also, a rapidly growing number of new domestic stakeholders are currently surfacing in the discussions. Far from being complete, the following aspects exemplify how Chinese companies have to adapt to the changing institutional settings at home – before they even start entering the global economic spheres.

### 5.2.2.1 New regulation

Probably the most significant new regulatory processes with regard to innovation of economic institutions in recent years have been passing a new law

on property rights, granting individuals the same legal protection for their property as the state (The Economist, 10 March, 2007; 11, 25 ff.; Frankfurter Allgemeine Zeitung, 16 March, 2007, 11), and the introduction of accounting rules conforming with the International Financial Reporting Standards (IFRS) for listed companies (The Economist, 13 January, 2007, 59).

Many other legislative processes of great significance for businesses have taken place. Following the revision of the Company Law in 2006, the introduction of the new Labour Contract Law in January 2008 persistently stirred up the debate on ‘good business’. In the law there are 98 articles relating to contracts, social security, work safety and labour unions (Ho 2007; E13/69). The great impact its stipulations have on business comes from the fact that only about 30 per cent of the employees in China were in signed contracts with their employers at the time of passing the law. Now, 100 per cent of employees are required. The previously arbitrary mode of setting probation periods is now also regulated by the new law (E13/64). Furthermore, the role of trade unions is becoming more significant, as one of the articles states that if a company wants to let go 20 people at the same time, it first has to inform and discuss this with the trade union (E13/66). Employees who have worked for the company for 10 consecutive years or more, are entitled to open-ended contracts under the labour contract law – a stipulation that induced many companies to introduce ‘voluntary resignation’ schemes, through which employees resign and are subsequently offered a new contract, thus avoiding the compulsory open-ended contract.<sup>95</sup> Before the law became effective at the end of 2007, the most intensely discussed case of this practice was Huawei, which came in conflict with the government authorities as a result.

As mentioned before (4.2.1.1), at the same time as the new labour law became effective, the SASAC released instructions on SOE’s social responsibility (Ho 2008; Chahoud 2008). It contains 20 articles that stipulate why and how SOEs should assume social responsibility. The five steps proposed by the instructions are: 1. increase the awareness of CSR among the companies, 2. establish and comply with a CSR system, 3. set up a CSR reporting system, 4. enhance the international collaboration with multinational companies and 5. enhance the party’s leadership in SOEs for CSR (P15/24).

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95 See: [http://www.china.org.cn/government/news/2008-09/19/content\\_16503113.htm](http://www.china.org.cn/government/news/2008-09/19/content_16503113.htm) (accessed 24 Apr. 2011)

In addition to these major incidences of new regulation with regard to the Chinese ‘good business’ discussion at the central level, there are numerous examples at the provincial or municipal levels, such as CSR guidelines issued by the Zhejiang government in April 2008 (P15/37) or by the Shenzhen stock exchange, as early as 2006 (E04/58).

### 5.2.2.2 New institutional arrangements

Among the many instances of institutional innovation, again, only a few very significant examples will be mentioned here.

The former State Environmental Protection Administration (SEPA) has re-emerged from the 2008 National’s People’s Congress as the new Ministry of Environmental Protection (MEP). In the past, the SEPA did not have sufficient power to enforce environmental legislation, mainly because it had been an agency-level bureau and its budgeting as well as reporting schemes had been related to the provincial governments, whose priority *was, and remains to be, to boost economic development within their* jurisdictions. Therefore, SEPA had been restricted to leveraging opportunities to act whenever there was an incident of pollution that roused public attention. But with the upgrade to a ministry, the financing for environmental policy lies with the central government, and now the MEP is switching from an event-driven approach to a more consistent and strategic policy-driven approach (P19/42).

This has manifold implications for businesses: Domestically, failure to comply with environmental law is now being tackled by the new MEP. In the past, if the provincial environmental bureau sanctioned polluting factories, they could move to neighboring provinces with a good chance of being warmly welcomed by the authorities there, grateful for the additional investment (E04/86). Now, the national-level institution is innovating its enforcement systems: “The MEP is now working with the People’s Bank of China and the China Banking Regulatory Commission (CBRC) to establish a data base containing track records of Chinese companies’ environmental performance. E.g. once there is an environmental pollution incident in a town, then that record will be stored in the data base and all the Chinese banks will receive that piece of information. Banks use this information to establish risk-weighted credit portfolios of companies” (P19/86).



Furthermore, there is a review by the MEP for companies that want to trade their stock. The MEP opens a ten day consultation window asking anyone to file queries or demands for settlements of disputes. There is a hotline for citizens to report cases. “If you are a listed company and want to issue bonds, then you have to go through the same process. The MEP already reported that they have rejected, or delayed some SOEs’ bond issuance because of their environmental problems” (P19/112).

Even globally acting Asian Business Drivers might be impacted by the upgrade of the MEP: Basically, the overseas investment and the business conduct of SOEs falls within the reign of MofCom. But the new MEP has now started an initiative to monitor the overseas investments of Chinese companies. They have initiated a joint research project with the MofCom to deliver a policy package for the environmental impact of companies’ overseas investments, consisting of the international regulations they have to comply with and best-practice examples (P19/47).

There are also innovations underway on social and labour issues, e.g. regarding the social insurance of migrant labourers (P23/97) and even with regard to collective bargaining: “Guangdong province is promoting this concept: inside those factories that host no official trade unions, workers can elect or select their own representatives to negotiate on wage and all the other issues. So long as 50 per cent of the workers cast their vote, they can negotiate – so long as this representation mechanism is not prominent and doesn’t do anything else! So: no freedom of association, but collective bargaining!” (P23/90) In a similar fashion, the Zhejiang Provincial Party Committee and Zhejiang Provincial Government have jointly promulgated a document promoting collective wage negotiations.<sup>96</sup>

But institutional innovation is not government-driven in all incidences that can be observed. The Extractive Industries CSR Working Group (EIWG) is an initiative that is highly relevant for the role of Asian Business Drivers in the discussion on ‘good business’ in China, and it convened for the first time on 17 July, 2008. This group is steered by the China International Mining Group (CIMG), an industry association comprising international and Chinese Mining companies, and Business for Social Responsibility (BSR),

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96 See: <http://www.chinacsr.com/en/2008/09/08/3043-zhejiang-to-promote-collective-wage-negotiation> (accessed 14 Nov. 2009).

an international advisory group that has been active in China since 1997. The EIWG pursues three broad objectives: 1. to raise awareness about CSR in a Chinese context; 2. to allow participants to share information and best-practices; and 3. to help participants engage on key CSR issues with multiple stakeholders across different sectors. Even though this initiative has just begun, it has already sent a clear message on behalf of the large Chinese SOMNEs CNOOC and CNPC that they have come to the conference table to discuss issues such as their involvement in African countries together with NGOs and their international counterparts, such as BHP Billiton, Exxon Mobile, AngloAmerican and Rio Tinto.

### 5.2.2.3 Non-market stakeholders raising their voice

The awareness among non-market stakeholders for potentially threatening environmental or health impacts of businesses is rising. "In China, people can be mobilised very quickly whenever they learn: this or that is not good for you or for your children. Therefore, companies in China will see much more stakeholder activism in the future" (P07/53).

At the moment, this activism is still staged on a case-by-case basis (P09/32), albeit, with high risk of ad-hoc violence connected to it. During the past two decades, the increase in registered cases of social unrest has roughly kept pace with the rate of GDP growth: 9-10 per cent per year. It is noteworthy therefore that these are "the registered ones – that means it must be a pretty big incident: a whole village would be armed to fight against the police or workers would block a highway in Shenzhen" (P23/66). In order to defuse its *destabilising* potential, first steps of the institutionalisation of channels for stakeholder articulation and activism are being taken presently.

In law making, for instance, there is now a willingness to interact with and get feedback from stakeholders. "Before, you used to have much more of these closed-door think tanks, a group of academics would come up with policies, regulations and laws, and very often there would be lots of problems, because these people may have had a bright academic background but maybe not so much experience at the practical level. So now they come up with a draft and they publish it to receive comments – they did it for the new labour contract law and they received thousands and thousands of comments. What they do with them, I don't know, but this is obviously a big change" (P09/32).

A further example is a new policy tool called ‘open information measure’. Through this, local communities and NGOs can demand of the authorities the disclosure public information, for example on the emissions of a given company (P19/115).

Even though there are institutional barriers to independent Non-Governmental Organization (NGO) work – registered NGOs have to appoint a government authority as their official counterpart – there are a number of grassroots groups in China. They are either not registered at all, or as business entities (E13/12; Kamp 2008b, 84). Some groups are headed by individuals, such as the well-known environmental activist Ma Jun, whose ‘Institute of Public and Environmental Affairs’ maintains the China Water Pollution Map and discloses companies’ violations of environmental laws (E17/28; P03/19).

Besides, in many ways the flow of information to non-market stakeholders provided by Chinese media is improving in terms of quantity as well as quality. “I think there is actually a much more vibrant conversation going on in China than many want to see” (P18/66). Contrary popular expectations, the Chinese media eventually challenge the government in debates on how far censorship should go, for instance in the event of public emergencies (The Economist, 29 July, 2006, 55). This way, the Sichuan earthquake of May 2008 provided a first incident of a national emergency where the media were allowed to report in an unprecedented manner: on site, live, and therefore fairly uncensored.

Consumer rights and product safety very often are contentious issues for non-market stakeholders. When articles of the Japanese cosmetics brand SK2 (owned by Procter&Gamble) were found to exceed Chinese standards on two kinds of heavy metals in 2006, customers immediately returned SK2 products to the shops and an ad-hoc protest march targeted the P&G offices in Shanghai (E04/65).

The fact that SK2 is a Japanese brand owned by a western multinational enterprise might have helped to spur outrage in this case. But more generally, there is a new generation of Chinese consumers who are increasingly aware of, and ready to defend themselves from, health and safety risks inflicted upon them by unsafe industrial plants and products. “They look around them and see pollution and think: why am I living in this? Their parents don’t think like that at all. Their parents go: I need to get safe and secure while I can, work like crazy and pollution I can live with because, hey, I got

a good house or car. But the sons and daughters pick up their backpacks, go out to Yunnan and the backpacking places in Sichuan, have a look around, stay in cheap places having an adventure, come back home and look at the quality of life and wonder: is this worth it?" (P18/151)

So there is a growing confidence in Chinese society about calling companies to account. The concept of consumer rights has become very important and the Internet has played a fundamental role in that (E04/60).

The Internet organises a steadily growing community of non-market stakeholders in blog discussions. These communities host rudimentary forms of civil society articulation by so-called 'netizens': "It's consumers, it's students – Internet access is fairly wide-spread now. A lot of people in a city like this [Shenzhen; jw] would have Internet access at home. And Internet cafes are very cheap, 3 or 4 Yuan for an hour. If you are earning 1500/2000 a month, then Internet is doable. And a lot of technical expertise is here, this is a sort of very switched-on society. (...) And any product that doesn't meet expectations, particularly foreign products, is in for a very rough ride through the very wild-west-cowboy-land of the Chinese Internet" (E04/62). In fact, protests against SK2 in 2006 and against the French retailer Carrefour in 2008 can be traced back to discussions in popular bulletin boards such as tianya.com (Frost 2008), where up to one million people can be logged in at any one time.

The debates in bulletin boards on the Sichuan earthquake provided an exemplary lesson on the netizens' impact on businesses in China. With the help of statements and rankings circulated in bulletin boards about the amount of money that companies had donated for earthquake victims, Chinese *stakeholders effectively rewarded or punished businesses' behaviour*. On the one hand, companies that did not donate generously enough (according to the blogger's views) were quickly labeled 'misers'. After Wang Shi, the CEO of the largest Chinese real estate developer China Vanke Company Ltd. suggested that the staff of the company should donate no more than RMB 10 per person<sup>97</sup> the stock price of Vanke dropped dramatically (P27/15). In contrast, Wang Lao Ji, a company producing a popular herbal soft drink that has been dubbed the 'Chinese Coca-Cola', donated one hundred million RMB,

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97 Being in the housing industry, he suggested that immediate donations were not as important as mid-term reconstruction works. Bloggers subsequently turned his name from Wáng Shí (王石) to Wáng Shí (王十), shí (十) meaning 'ten'.

to the effect that its products were sold out for a month (P03/52). Wang Lao Ji thereby made big strides in terms of market share vis-à-vis the Hong Kong based Swire Beverages Ltd., the licensee for Coca-Cola in China (A0701).

There are also incidents of stakeholders raising their voice using communication technology beyond the internet. In 2007 and 2008, two major investment projects were halted by local communities organising protests through mass text messages circulated to mobile phones. In Xiamen, the Taiwanese-funded Xianglu Group planned to build a chemical plant close to residential areas. After government authorities gave permission to the investment project, ignoring the local community's concerns that the plant's emissions could cause serious health problems, mass text messages called the local community to participate in demonstrations in the spring of 2007. The messages held that by promoting the construction of the giant chemical factory in the suburb, the local government was 'setting off an atomic bomb in all of Xiamen' (Cody 2007; Kamp 2008b). "After the protests, the local government did not dare to permit the project anymore, because they knew there would be trouble." (P07/42).

In a similar fashion, local protesters delayed to this day the permission to the extension of the Maglev railway from Pudong to Shanghai's Hong Qiao Airport for fear of increased cancer risk in the residential area through which the route is planned to run.

One conclusion from the observation of non-market stakeholder activism in China is that forms of quasi-civil society articulation with increasingly pluralistic features emerge. Side-effects thereof are an increased willingness of the authorities to channel stakeholder interest into institutionalised forms, an increasingly self-confident media, NGOs, netizen communities, local stakeholder communities and a general interest of consumers to protect themselves against environmental and health hazards brought about by rapid and unsafe industrialisation. It is important to note, however, that participation in these forms of non-market stakeholder articulation is restricted to the young, connected, coastal, urban and middle class stratum of Chinese society – which can nevertheless represent a group of several hundred million people. "Even though China is certainly far from being democratic – the partial participation, the inclusion of parts of the population in decision-making can nowadays no longer be overlooked" (P07/42).

### 5.2.3 A new variety of (legitimising) capitalism

The analysis of the internal discourse shows that the discussion on ‘good business’ in China is decreasingly characterised by the OECD-based policy discussions around OECD-led global value chains, and increasingly so by endogenous dynamics and native Chinese concepts.

By virtue of a discourse around genuine Chinese role models, such as the ‘harmonious society’ and as a response to changing domestic stakeholder environments (determined by the pivotal stakeholder government, but increasingly so by Chinese non-market stakeholders), the discussion on ‘good business’ in China increasingly detaches itself from the OECD stakeholders.

Thus, a main result of the empirical discourse analysis is, that Chinese discussants above all in government and business, although they had before adopted the discussion on ‘good business’ from the OECD actors, now embrace it firmly, so as to effect on it a rich endowment of ‘Chinese characteristics’. Hence, instead of exogenous value chain drivers, the discourse emphasises endogenous drivers and that way reveals differences to OECD standards and practices. The discourse suggests that there is an alternative design of business legitimacy in China, broadly comprising the following characteristics:

At the level of business policy discussions, it exhibits

- features of ‘harmony’ (as a means for maintaining social stability),
- features of ‘soft competitiveness’ of globalising Chinese companies,
- features that can be inferred from genuinely Chinese cultural and historical elements.

At the level of stakeholder networks, it responds to

- new domestic regulation,
- new domestic institutional arrangements,
- increasing domestic non-market stakeholder activism.

Does China’s distinct institutional set-up therefore give rise to a new variety of *legitimising* business in China? Is the Chinese ‘variety of capitalisms’ the prevalent determinant of ‘good business’ in China? Preliminarily, based on an analysis of the Chinese discourse, the answer is ‘Yes’.

However, this alternative design of business legitimacy in China is derived from the domestic Chinese policy discourse, which not *necessarily* needs to be reflected in the actions of businesses. It therefore *does not* constitute the (A) type (Asian Business Drivers' acquisition and retention of legitimacy), but informs the generation of (A) through the following empirical module 2. In order not to confuse the results of the discourse analysis with the ideal types to be generated, the former is from now on referred to as the 'discourse type of A' (dt A) (see chapters 2.1.5.2 and 3.4).

### 5.3 Case studies: Business Drivers from China

As seen in the previous chapter 5.2, the domestic Chinese discourse on 'good business' suggests an alternative approach to OECD forms of legitimising business behaviour, indicating towards a confirmation of the variation assumption. However, is this endogenously derived, distinctively Chinese new variety of legitimising business in fact *action-guiding* for Asian Business Drivers, whose sphere of action is increasingly often a global one? Would Asian Business Drivers not be better advised to align themselves with OECD norms and standards in order to lower institutional variance and thus transaction costs?

These two questions are investigated in empirical module 2 in the following, whereupon their contrasting implications mark the extreme ends of spectra, within which the values for the variables that determine the (A) type may appear: At one end of the spectrum, (A) conforms to the discourse type (dt A); (A) is then perfectly varied from the OECD benchmark (O), confirming the variation assumption. At the other end of the spectrum, (A) conforms to the OECD benchmark (O); there is no variation between (A) and (O), and therefore, the variation assumption is rejected.

However, perfect conformity of (A) with either extreme is not expected. There has to be room in the analysis for answers ranging in between the extremes. In order to facilitate these answers, a scale between the extreme values 0 and 1 will be defined for each element of business legitimacy (RIPO, see 2.1.5.2<sup>98</sup>),

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98 In this, the method of 'fuzzy-sets' is applied, which, besides perfect affiliation (value 1) and perfect non-affiliation (value 0) with defined sets, allows for gradation (values 0.1, 0.4, 0.6, etc). Through this, quantitative grades are introduced to originally qualitative concepts. The dichotomy between affiliation and non-affiliation is complemented by a point of indifference (value 0.5), where affiliation is undecided. All gradual nuances have to be verbalised in order to render them commensurable (Blatter et. al 2007, 17).

ranging across the spectra between the discourse type (dt A) and the OECD benchmark (O). The synthesising steps of constructing the applicable scales for empirical module 2 are further illustrated in annex 7.

After introducing the scales, the following chapters discuss the five cases of Asian Business Drivers which have been introduced in general in chapter 4, with regard to their efforts to retain legitimacy of their operations.

### 5.3.1 Introduction to applied scales

#### 5.3.1.1 R – stakeholder inclusion by referring to role models

In order to render business legitimate, businesses’ role models have to be legitimate ones. As seen in 3.1.2.1, legitimacy for business action *then* emanates from role models, if they enjoy authority among the businesses’ constituencies.

The (dt A) clearly exhibits the importance of genuine Chinese concepts as providing role models for business legitimacy. Together with its many variations and derivatives, the Confucianism-inspired, government-driven and constantly re-interpreted programme of the ‘harmonious society’ is now virulent in the Chinese discourse on ‘good business’. As its value content, the programme conveys features of balancing antitheses in social and physical spheres,<sup>99</sup> e.g. through peaceful conflict resolution, thereby supporting stability and unity – the millennia-old key concerns of Chinese politics.<sup>100</sup> As moral authorities, the discourse features the top political leadership Hu Jintao and Wen Jiabao – who launched the ‘harmonious society’ programme when they took office in 2002 – but also senior officials such as Cheng Siwei (see. 5.2.1.2).

Suitable scales for measuring the variable R (stakeholder inclusion by referring to role models) are thus ranging between the following extreme values:

*Conformity with the discourse type (dt A):*

i) Role models derived from the Chinese discussion on ‘good business’ (such as the ‘harmonious society’ and variations thereof) are associated

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99 These antitheses are: urban vs. rural development, eastern (Chinese) vs. western (Chinese) development, social vs. economic development, internal vs. external policy issues and human development vs. the conservation of nature (P04/48).

100 天下 (tiān xià), the unity of everything ‘under heaven’ – meaning the unity of the Chinese empire – is an expression which has been instructive in political and cultural spheres since the early unifications of the Chinese kingdoms.



with through issuance of businesses' policies and communication with stakeholders. ii) Moral authorities or institutions (promoting harmonious society concepts and variations thereof) are associated with through issuance of businesses' policies and communication to stakeholders.

*Conformity with the OECD benchmark (O):*

i) Role models highlighted in the OECD-led discussion on 'good business', such as 'sustainable development' and variations thereof, are associated with through businesses' policies and communication to stakeholders. ii) Moral authorities or institutions promoting sustainable development concepts and variations thereof are associated with through businesses' policies and communication to stakeholders (see chapter 3.1.3).

With these specifications at the extreme ends of the scales, the scale values can furthermore be defined in a manner that they can account for simultaneous occurrences and blends of (dt A) and (O) role models (see table 8).

### 5.3.1.2 I – ideational stakeholder inclusion

In order to retain legitimacy, businesses' images have to be legitimate ones. 'Ideational stakeholder inclusion' makes use of the affective association of stakeholders with the business through charismatic leadership, reputation and extraordinary qualities attached to a brand (see chapter 3.1.2.2). While there is not much variance between the Chinese and OECD-based discussions on leadership, the analysis of the construction of brand images and reputation is more rewarding: The parallel revolutions of brand value and outsourcing – an initial entry point of the 'good business' discussion in the OECD world (see 1.2.1.3) – take on quite different features in the Chinese context.

Responding to increasing domestic non-market stakeholder activism, such as the ability of consumers to effectively sanction business behaviour, Chinese businesses base their efforts to build up brand images (catering to consumers) and reputation (catering to other stakeholders) on accentuations of national loyalty and philanthropic activities. The Sichuan earthquake provided a case in point, which hardly any Chinese business could afford not to respond to through philanthropic activities.<sup>101</sup> Another highly symbolic and nation-wide

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101 Of course, other foundations for building up brand value could be named, such as quality, a positive life style image, longevity etc. These would, however, not show significant variances to the (O) type.

event which most Chinese brand companies actively participated in (in varying degrees and forms), were the Beijing Olympics in August 2008.

Suitable scales for measuring the variable (I) thus range between the following extreme values:

*Conformity with discourse type (dt A):*

i) Building up brand value (with consumers) is achieved by association with national concerns and engagement in philanthropic activities. ii) Building up reputation (with other stakeholders) is achieved by association with national concerns and engagement in philanthropic activities.

Conformity with OECD benchmark (O):

i) Building up brand value (with consumers) is framed beyond national concerns, emphasising a core business case. ii) Building up reputation (with other stakeholders) is framed beyond national concerns, emphasising a core business case (see chapter 3.1.3).

Table 8 features the scale mode, values and threshold values applicable to this scale.

### 5.3.1.3 P – procedural stakeholder inclusion

In order to retain legitimacy, processes put in place by businesses for the attention – and arbitration – of stakeholders' interest have to be legitimate. The constituency of stakeholders then grants legitimacy, whenever their interests are acknowledged and accounted for in deliberative processes put in place by businesses (see chapter 3.1.3).

Processes for interest arbitration can be viewed from two different angles: first, that of how many, and second, that of which stakeholders are included by business. The first perspective observes how narrow or broad the range of acknowledged stakeholders is; the second, whether there are certain stakeholders that assume dominant positions over others in the recognition by the business.

The discourse on 'good business' in the Chinese political economy provides clues for some significant differences with regard to stakeholder networks to the OECD-led discourse. The government (at the provincial and at the central level) is not only the single-largest entrepreneur in terms of ownership (SOEs) and holdings of businesses; it also determines the regulation

and institutional arrangements that form the domestic business environment in a (still) rather exclusive manner.<sup>102</sup> For both, state-owned and private enterprises, therefore, governmental stakeholders can be expected to be among the most important ones. Shareholders (*beyond* the government) in contrast, are less important because of a fairly low market capitalisation of businesses.

Other non-market stakeholders such as the media, NGOs or local communities now begin to raise their voice (see chapter 5.2.2.3). Nevertheless, the range of stakeholders acknowledged and included in Chinese businesses is still rather narrow, with the government claiming a dominant position.

Suitable scales for measuring the variable P thus range between the following extreme values:

Conformity with the discourse type (dt A):

Within a rather narrow range of stakeholders, the governmental ones are the most important.

Conformity with the OECD benchmark (O):

Within a rather broad range of stakeholders, shareholders are the most important (see chapter 3.1.3).

Table 8 features the scale mode, values and threshold values applicable for this scale.

#### 5.3.1.4 O – output legitimacy

In order to retain legitimacy, the result of businesses' operations – the output – has to be legitimate. Output legitimacy is attained through reporting to stakeholders on operational (financial and non-financial) aspects (see chapter 3.1.4).

The *raison d'être* of business in 'Western' discussions is not restricted to economic returns, such as products, growth, innovation, employment etc. There is the recognition that mere economic output legitimacy falls short of stakeholders' more comprehensive demands on businesses' problem-solving capacities.

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<sup>102</sup> Even though this is changing, as seen in 5.2.2.2.

In the Chinese discourse, however, distinct forms of non-economic output have been put forward: In the process of maturing in the global sphere, businesses from China are sanctioned by governmental authorities or business associations for the accumulation of ‘soft competitiveness’, e.g. through awards. Such competitiveness awards are often deemed an important achievement to be communicated to the stakeholders – rendering them a feature particular to the Chinese debate that is less often found in the OECD context, and a useful proxy for the (dt A) type output legitimacy variable.

The following extreme points of the discussion inform the generation of scales for output legitimacy:

*Conformity with the discourse type of (A) (dt A):*

Awards for and recognition of increased global (moreover ‘soft’) competitiveness is important non-economic output for legitimising business action.

*Conformity with the OECD benchmark (O):*

Social and environmental output is important for legitimising business action (see chapter 3.1.3).

Table 8 features the scale mode, values and threshold values applicable to each of the introduced scales.

### 5.3.2 Case studies

The following chapters review – in an ideal-typical manner and using data gathered in empirical module 2 (‘ideal type generation’) – the Asian Business Drivers’ forms of maintaining business legitimacy. Using the proposed scales to measure occurrences along the spectra of the RIPO elements of business legitimacy, empirical types are determined for each case, before consolidating the empirical types into one ideal type for Asian Business Drivers’ (see chapter 2.1.5.2). Thereby, the label ‘RIPO’ illustrates the perfect type for variation from, and the label ‘ripo’ the perfect type for conformity with, the OECD benchmark. All intermediate variations may occur. The empirical types are portrayed through explanatory comments, radar charts and brief conclusions. The data sheets, with the help of which the types are being constructed, can be viewed in annex 8.

Table 8: Overview of scale definition					
Element of business legitimacy	Operationalisation		Spectrum / Value definition	Scale mode	Significance threshold
<b>Role models (R)</b>	Role model communication	Role models are associated with through businesses' policies and communication with stakeholders	<ul style="list-style-type: none"> <li>- (dt A) conformity: (dt A) role model mentioned (value 1)</li> <li>- (dt A) role model (predominant) <i>and</i> (O) role model mentioned (value 0.75)</li> <li>- indifference: no mention of any, or mention of both role models (value 0.5)</li> <li>- (dt A) role model <i>and</i> (O) role model (predominant) mentioned (value 0.25)</li> <li>- (O) conformity: (O) role model mentioned (value 0)</li> </ul>	nominal	$x > 0.5$
	Association with related moral authorities, institutions	Related moral authorities, institutions are associated with through businesses' policies and communication to stakeholders	<ul style="list-style-type: none"> <li>- (dt A) conformity: (dt A) moral authority mentioned (value 1)</li> <li>- (dt A) moral authority (predominant) and (O) moral authority mentioned (value 0.75)</li> <li>- indifference: no mention of any, or mention of both moral authorities (value 0.5)</li> <li>- (dt A) moral authority and (O) moral authority (predominant) mentioned (value 0.25)</li> <li>- (O) conformity: (O) moral authority mentioned (value 0)</li> </ul>	nominal	$x > 0.5$

<b>Table 8 (cont.): Overview of scale definition</b>					
<b>Element of business legitimacy</b>	<b>Operationalisation</b>		<b>Spectrum / Value definition</b>	<b>Scale mode</b>	<b>Significance threshold</b>
<b>Ideational stakeholder inclusion (I)</b>	Image	Image is built up within the affective relation to consumers	<ul style="list-style-type: none"> <li>- (dt A) conformity: national framework, philanthropy (value 1)</li> <li>- national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)</li> <li>- indifference: no brand value being established (value 0.5)</li> <li>- national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25)</li> <li>- (O) conformity: transnational framework, core business case (value 0)</li> </ul>	nominal	$x > 0.5$
		Reputation	Reputation is built up within the affective relation to (other) stakeholders	[dito]	nominal

Table 8 (cont.): Overview of scale definition					
Element of business legitimacy	Operationalisation		Spectrum / Value definition	Scale mode	Significance threshold
<b>Procedural stakeholder inclusion (P)</b>	Range of acknowledged stakeholders	A broader or narrower range of stakeholders is included in business-led processes of interest arbitration	<ul style="list-style-type: none"> <li>- (dt A) conformity: few (1-3) stakeholders are mentioned (value 1)</li> <li>- indifference: a medium range of stakeholders (3-6) are mentioned (value 0.5)</li> <li>- (O) conformity: multiple stakeholders (&gt;6) are mentioned (value 0)</li> </ul>	nominal	$x > 0.5$
	Dominance of particular stakeholders	Particular stakeholders are prioritised / are given primacy by businesses	<ul style="list-style-type: none"> <li>- (dt A) conformity: governmental stakeholders clearly dominant (value 1)</li> <li>- governmental stakeholders dominant, others important (value 0.75)</li> <li>- indifference: no dominance (value 0.5)</li> <li>- shareholders dominant, others important (value 0.25)</li> <li>- (O) conformity: stakeholders clearly dominant (value 0)</li> </ul>	nominal	$x > 0.5$

<b>Table 8 (cont.): Overview of scale definition</b>				
<b>Element of business legitimacy</b>	<b>Operationalisation</b>	<b>Spectrum / Value definition</b>	<b>Scale mode</b>	<b>Significance threshold</b>
<b>Output legitimacy (O)</b>	Output is being reported of in forms of 'soft competitiveness' and with reference to competitiveness awards, or in forms of social and environmental output	<ul style="list-style-type: none"> <li>- (dt A) conformity: mention of competitiveness awards, no mention of social and environmental output (value 1)</li> <li>- mention of both, emphasis on competitiveness awards (value 0.75)</li> <li>- indifference: no mention of any form of output (value 0.5)</li> <li>- mention of both, emphasis on social and environmental output (value 0.25)</li> <li>- (O) conformity: mention of social and environmental output, no mention competitiveness awards (value 0)</li> </ul>	nominal	$x > 0.5$

Source: Own compilation



### 5.3.2.1 SOMNEs: Sinopec

As an example of the state-owned multinational enterprises class of Asian Business Drivers, Sinopec exhibits the ‘rIpo’ type of acquiring and retaining business legitimacy (membership value 0.63). It can be observed that except for the I variable, all other variables range closer to the OECD benchmark than to the discourse type of (A): business legitimisation, for Sinopec, resembles that of an OECD company’s much more than the domestic Chinese discourse suggests.

Reasons for this might well be seen in the SOMNEs’ mixed mission depicted in chapter 4: While still part of the structural organisation of the socialist society, Sinopec currently “*is aiming at growing up to a multinational energy and chemical corporation with strong competitiveness*” (Sinopec 2007, 2). It therefore aligns with the OECD benchmark of legitimising business by referring in its communications to the GRI (Sinopec 2007, 28), the Global Compact, to sustainable development role models and other concepts that are of great importance to a western audience (e.g. the mention of human rights, collective bargaining, ‘democratic management’; Sinopec 2006, 20).

*Role model:* In Sinopec’s communications, many references are being made to ‘harmonious society’-related role models – paying attention to the expectations of the Chinese government on the SOE’s role in society and to the domestic discourse on ‘good business’: As Sinopec’s former Head of Safety & Environment, Zhai Qi, explains, “since ‘sustainable development’ has been raised in the West, we prefer to say ‘harmonious’. The term ‘harmonious development’ can actually raise Chinese people’s understanding; they can source the root of the saying” (A0401/44). Notwithstanding this, Sinopec effectively adopted the sustainable development agenda and leads the business-driven sustainable development discussion in China. As early as 1996, Sinopec Corp. joined the WBCSD as its first Chinese member and subsequently established the CBCSD under the company’s roof (Sinopec 2007, 5). As Sinopec mentions both (dt A) and (O) role models, but clearly stressing ‘sustainable development’, it is assigned a value of 0.25 according to the scale definition for the variable ‘role models’.

Its *ideational stakeholder inclusion*, however, clearly shows features of a pure (dt A) based approach (value 1): Sinopec tries to set up a social profile by philanthropic activity exclusively targeted to national social problems such as poverty alleviation, education and disaster relief in China. A

relation of these activities to a core business case is not identifiable; neither is any charity extended to people outside China, e.g. to local communities close to overseas project sites. Here, Sinopec continues the role of a nation-state-confined state-owned enterprise that does not see the necessity or strategic advantage of attaching business goals to its charitable activities. The words of a poem<sup>103</sup> printed in Sinopec's sustainability report shows that it is unambiguously embedded into the domestic discourse when communicating its social activities: "*May the Communist Party live forever! May the Motherland live forever*" (Sinopec 2007, 25).

In its efforts to *include stakeholders through procedures*, the result is more ambiguous. Clearly, a broad range of stakeholders is identified and conceptualised according to their claims to the company (Sinopec 2006:7; Sinopec 2007:6), hinting at an articulate (O) type approach. However, even though the Chinese Government is portrayed as merely one among many stakeholders, it is obviously the dominant one, for its ownership of 75 per cent of the company's stock and for the fact that it effectively commissions socio-political tasks to the company: "*Since the fourth quarter of 2007, the company took various steps to ensure supply when refined oil products were in short supply in some parts of China. These actions reflected our corporate commitment to social responsibility and supporting stable economic growth in China*" (Sinopec 2007, 24). Hence, (O) type stakeholder management concepts are employed and the claims of a broad range of stakeholders are acknowledged, while the dominance of the governmental stakeholder cannot be overlooked. In aggregation, the two applied scales result in a value of 0.375 for the p-variable.<sup>104</sup>

On items regarding its *output legitimacy*, Sinopec clearly inclines towards (O) type approaches to stressing environmental and social output (value 0.25). There were lists of Chinese competitiveness awards in its 2006 report (Sinopec 2006, 11), among them the "China Striding to the World Award" from the Chinese Academy of Social Science. This indicates that advances in competitiveness, particularly in the global spheres, remain a part of Sinopec's output legitimacy. In its 2007 report, however, awards are no

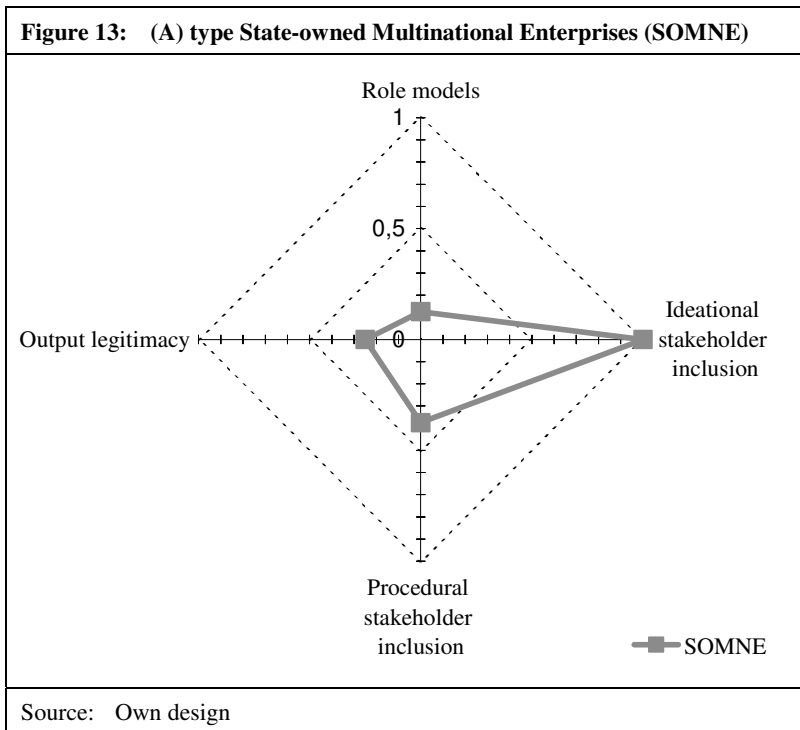
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103 A Poem written by a rural farmer who had been cured of a cataract by the Sinopec-sponsored "*Health Express*".

104 This value, which ranges close to indifference, reflects Sinopec's ambiguity towards the variable P. It thus renders the membership value of the overall type rather low.

longer listed. Instead, extended information on its environmental and social output, including figures of discharges, freshwater consumption etc. are given much room.

Figure 13 shows the four variables together in one chart. As can be seen for this example of an SOMNE class Asian Business Driver, the variation of its ideal-typical forms of business legitimisation from the OECD benchmark (origin of axes) is *not* significant, except for the I-variable. Only the value for ideational stakeholder inclusion crosses the threshold of significance marked by the inner square of dotted lines (0.5 value). The conclusions from this can be summed up in three points: First, Sinopec is striving to become a truly multi-national company, thus joining in rules and standards that had been agreed on in an (O) type context before (UN Global Compact, GRI, WBCSD). Second, legitimacy is overwhelmingly contingent on its dominant stakeholder, the Chinese government, which wants the company



to advance into global spheres of action, but nevertheless imposes on it some distinctly Chinese features with regards to aspects of its role model communication and output legitimacy. Third, however, on its image-related ideational inclusion of stakeholders, Sinopec, like other SOMNEs, still seems overwhelmed by its mixed mission: In order to contribute to national stability, socio-political commitment is still restricted to national stakeholders. At the same time, this means that Sinopec is neglecting the management of image-related risks that accrue from growing concerns of transnational stakeholders, most obviously related to overseas projects – and most virulently for projects in Africa.

In summary: Can this disposition to the observed aspects of business legitimisation result in a legitimacy problem for Sinopec? Domestically, where it is a firm part of the government-steered production system, certainly not. Abroad, however, for its failure of ideationally including transnational stakeholders, e.g. by generating “benign images” (Gu / Humphrey / Messner 2007, 21), probably yes.

### 5.3.2.2 Private Business Pioneers: BAOL and YGM

The pioneering Chinese private businesses that have been observed here exhibit forms of business legitimisation that are quite distinctively varied from the OECD benchmark. As figure 14 illustrates, for two variables this type ranges outside the threshold of indifference and is congruent with (dt A) (dotted line / outer square in fig. 14). A reason why this rather pure form of an ‘RIPO’ type (membership value 0.75) can be observed here, is that Private Business Pioneers play an important part in the founding myth of global players from China, and this founding myth is reflected in the current Chinese discussions on ‘good business’. Whereas the global players are a relatively recent phenomenon, the pioneers, by applying their distinctive business ethics and values, generated the very conception of post-revolutionary private business in China.

In this conception, the work ethics partially imported by foreign-born ethnic Chinese coalesced with the institutionalised rules and restraints in socialist China. OECD policies on ‘good business’ are therefore not referenced by the private business pioneers. Rather, they have been brought to them from outside, as one of a number of compliance systems to be met in the global value chains.

The *role model* ‘harmonious society’ finds application in private business pioneers’ communications: less so as an act of compliance with governments’ expectations, but rather because its Confucian core resonates within the often traditional convictions of the pioneering entrepreneurs. As SC Lau, chairman of the YGM group explained: “A harmonised world – that is the idea. (...) In fact, people say that [Hu Jintao’s; jw] ideas are kind of Confucian because his thinking is: you start from yourself, your heart, and then you try to be yourself, very harmonised, and then you start influencing your family, and different families are doing the same thing, then the whole country would do like that. (...) The Chinese, the Eastern culture love this kind of thought. You can see the [Chinese silk; jw] painting here: humans and nature in harmony, co-existing in these mountains and waters” (A0304/24).

Also, other distinct Chinese role models can be identified: the ethics of working hard in order to furnish the next generation with better opportunities for education is widespread. This role model is often referenced with own family histories of self-made success, or the theme of survival in spite of hardships and endogenously-driven ascendancy to wealth. “People from overseas, if they want to visit China, they should go and meet the people in the countryside in order to understand how they work very hard, how they save every penny for the family, how they save every dollar for the son to be educated” (A0102/14). At times, these ethics mingle with expressions of patriotism – rather pronounced e.g. by the Hong Kong-born chairman of BACL, Annie Wu: “Chinese, in our hearts, we always feel something for our motherland. We are Chinese, through and through. (...) And I think, doing something for the motherland is high on the priority list” (A0102/32).

Buddhism is another source of role models, as SC Lau explained: “This is kind of Buddhism: you love your nature, you love God, and then you spread this feeling to the people who are connected, and then maybe also to the people you meet, and this will make a good, harmonised universe. [...] And this way it is easier to be successful. This is my belief” (A0304/170).<sup>105</sup>

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105 SC Lau (A0307) used the characters 因緣 (*yīn yuán*) to explain the Buddhist concept. While these signify the chain of cause and effect, predestination and fate (compare with the ‘Ying and Yang’ symbols in Asian-inspired western pop culture), there are connotations of opportunity and generating sources, not dissimilar to the Schumpeterian notion of the entrepreneur as creator. When this observation was cross-validated with a Chinese expert, he commented: “Maybe this entrepreneur thinks he is The Source” (E19).

As all of the identified role models can be derived from the Chinese discourse or Asian cultural context, the R-variable is given a value of 1.

*Ideational stakeholder inclusion:* For the Private Business Pioneers BACL and YGM, trust-coordinated relations to stakeholders, maintained by charismatic business leader figures, largely secured the reputation and image demands of the businesses. In both cases, highly acclaimed public figures (Annie Wu herself,<sup>106</sup> her father James Tak Wu for BACL, SC Lau and SK Chan for YGM) manage the typical 'guānxi' (关系, relational) networks by virtue of their prestige in the industrial as much as the governmental (Hong Kong and Beijing) realm. The observed businesses provide typical examples of businesses in the Chinese "Network Capitalism" (McNally 2007a, 190).

Thereby, the prestige of the founders of the businesses is being maintained by nationally framed philanthropic activities that have been most visible during the Sichuan Earthquake of May 2008, but which are also expressed in regular forms of philanthropy through charitable foundations with oftentimes educational ends. There is no direct business case being followed in this, other than a fulfillment of social commitment and patriotism as a sense of duty towards the nation. As a result, the prestige generates trust with few key stakeholders in place of an image or brand value built up for more generalised stakeholders – which would be the Western approach. Claims from transnational stakeholders – as for instance western consumers' demands for 'good business' that are conveyed to them through the value chains – are therefore only responded to in a reactive and *ad-hoc* manner. The ideational inclusion of stakeholders by the Private Business Pioneers follows a 'pure Chinese' (dt A) approach (value 1).

*Procedural stakeholder inclusion:* Besides governmental stakeholders, only customers, suppliers and employees play a significant role in the stakeholder communication of Private Business Pioneers. And catering to the trust-based relationships, reciprocity in the relation to these key stakeholders is very important. They are included through constant communication, membership in associations and emphasising mutual gains. In both observed cases, the top managers are members in the CPPCC, the second-most important assembly in the state set-up. In accordance to this, main-

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106 See the cover story of 'Women of China' "First entrepreneur through China's Open Door" (Sivelle 2006, 27).

taining the relationships to the government stakeholders was explicitly mentioned as the charismatic business leader's concern. Out of a comprehensive list of the YGM Group's 26 local stakeholders, 16 groups are directly linked to the government – the customs, labour and environmental protection bureaus, retired government officials and secret police. There is a clear dominance of local government stakeholders, and the high political contingency of joint venture operations explains this.<sup>107</sup> Although the stakeholder recognition of the Private Business Pioneers shows a mid-width range of stakeholders, the governmental ones are manifold and well at the centre of concerns (value 0.75).

*Output legitimacy:* Success is at the centre of the output that is communicated by Private Business Pioneers. In his calligraphies displayed in BACL's company brochure, James Tak Wu stated his vision of global success: "Introducing the in-flight meals with Chinese characteristics to the world" (BACL brochure:2).

The entrepreneurs' ambition for success and the inter-related hard work ethics coincide with (and mutually reinforce) local governments' interests to develop local economies and is therefore recognised through awards that are displayed in brochures, websites, hallways and chairpersons' offices. While other things such as tax payments, labour issues and environmental protection are also considered, in essence, the economic performance of businesses weighs most in the criteria of the awards (value 0.75).

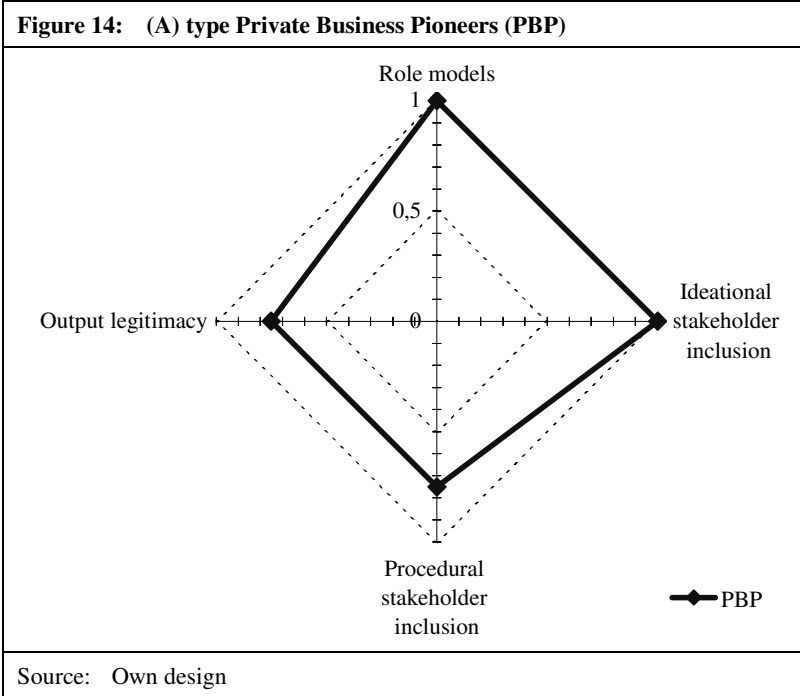
However, the Private Business Pioneers are facing increasing institutional change enforced by the central government: "Before, [economic success; jw] was 100 per cent important. Now, because of the policies from Beijing, they want to cut out: They don't want bad companies to be successful, they don't want waste-water polluting companies in this area. So: different angle, different time, different story" (A0304/163).

In sum, as is illustrated in figure 14, the Private Business Pioneers' (A) type features a most clear variation from the OECD benchmark. Largely, this is because the Chinese discourse on 'good business' (the (dt A) extreme of the scale) has been influenced by both the coalescence of the pioneers' values with the rules and restraints inherent in the socialist political economy and the more recent government-driven role model for development and insti-

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107 Both observed cases are joint venture operations between equity holders Hong Kong and Mainland.

tutional innovation. However, the Private Business Pioneers (PBP) type is expected to be less important in the global sphere: the concepts of the global players from China may root in the pioneering businesses’ philosophies, but they have come a long way since the pioneering days.



### 5.3.2.3 Supply end drivers: Foxconn

As one of the largest and most efficient producers of electronic consumer articles in the world, Foxconn (Hon Hai Precision Industry Co. Ltd.) automatically has a prime position in the global discussion on ‘good business’. Hence, as a driver of its industry from the supply side of the global value chains (4.2.3), does Foxconn assume a stance towards the discussion that is distinct for Asian Business Drivers? The results of this survey show that it does not: Foxconn hesitates to take its position, it releases no more information to the public discussion than is strictly necessary, and what is released is in compliance with standards set by its OECD.



Foxconn plays according to the global buyers' rules. With the exception of a fairly lopsided market-stakeholder orientation, which is today rated as outdated in the global 'good business' debate. An obvious target of non-market stakeholders' attention on account of its sheer size, Foxconn shies away from public discussions on its operations and immediately bears down on any public criticism from non-market stakeholders. It is clearly evident, however, that Foxconn has a bargaining position that is firm enough – also against governmental stakeholders – to defend this variance in stakeholder management practices. In sum, Foxconn exhibits an empirical type of business legitimisation that aligns with the OECD benchmark, except for the p-variable: riPo (membership value 0.75).<sup>108</sup>

Even though Foxconn is Taiwanese-invested, it grew to its current significance in Mainland China and its success is based on the opportunities seized on the mainland, among others in terms of the 'China Price'-labour costs (Harney 2008).<sup>109</sup> It is therefore appropriate to observe Foxconn as a case along the (dt A) (O) range. Nevertheless, its Taiwanese origin bears significance for its relations to governmental stakeholders: next to central and sub-central authorities of the People's Republic, Taiwanese governmental stakeholders also play a role here.

In its *role model* communication, Foxconn does not invest much own efforts. Beyond the company founder and CEO Guo Tai Ming's vision "*to make comfort of electronic products usage an attainable reality for all mankind*"<sup>110</sup>, Foxconn refers to the Electronic Industry Code of Conduct (EICC 2005) for all other questions on Foxconn's values and beliefs. The EICC has been established by the OECD-based firms Celestica, Dell, Flextronics, HP, IBM, Jabil, Sanmina SCI and Solectron (now owned by Flex-

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108 It has to be mentioned, however, that the data that this observation is based on is sketchier than for the other cases: For reasons of its tight-lipped approach, there has been only access to secondary interview partners who had done research on the company before. However, together with the available documents, these secondary interview partners' observations have been stringent enough to make the case.

109 CEO Guo: "*We don't want to say we are a Taiwanese company or a Chinese company. We are an international company. First, we were in Taiwan, then China, and then international – Ireland, Scotland, the Czech Republic and Japan. Now we can say that we are an international company*"; online: [http://www.businessweek.com/magazine/content/02\\_27/b3790617.htm](http://www.businessweek.com/magazine/content/02_27/b3790617.htm) (accessed 27 Nov. 2009).

110 See: <http://www.foxconn.com/ManageConcept.html> (accessed 27 Nov. 2009).

tronics) some of Foxconn's largest corporate clients or competitors in October 2004 (EICC 2005, 11). EICC consequently refers to key institutions of the OECD-based debate on 'good business', such as the OECD Guidelines, SA8000 and the UN Global Compact. Foxconn refers to the 'harmonious society' role model only occasionally when Chinese government authorities are directly involved – e.g. for the government-directed conflict resolution process with the Chinese media in 2006 (see below). Therefore, a value close to the OECD benchmark (0.25) is being assigned to this variable.

In contrast to the very public business celebrities heading the Private Business Pioneers, Foxconn has a publicity-shy leader – Terry Guo Tai Ming, Taiwan's richest man. Efforts to *include stakeholders ideationally* are limited to Foxconn's mostly transnational corporate clients. The reputation it has built up with them is one of a highly reliable and fast supplier of highest quality for very large scale orders and at most competitive prices. And although Foxconn claims to be the second largest donor for social causes in Mainland China, this has only been communicated in response to media reports on its lack of social responsibility.<sup>111</sup> Philanthropy is not being used to create benign images of the business among its stakeholders for two reasons: First, the Taiwanese government does not encourage charitable activities of Taiwanese corporations on the mainland for fear of over-involvement in the system of the People's Republic.<sup>112</sup> The senior management had already been in conflict with Taipei because Foxconn's Shenzhen plant, as the first Taiwanese business on the mainland, had installed a CCP branch. Second, Foxconn's customers are overwhelmingly non-Chinese transnational corporations, whose transnational stakeholders pay less attention to philanthropy within the Chinese nation. Thus, Foxconn's ideational inclusion of stakeholders follows a transnationally framed customer-oriented business case and is therefore assigned the value 0.25.

*Procedural stakeholder inclusion:* Foxconn regards few stakeholders as having legitimate claims on the company's operations. Foxconn only accepts comments from the government, courts and its buyers. First and foremost are the buyers, by virtue of whose orders the company became a driving actor in the global electronic goods supply chain within a very short

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111 FOXCONN S.E.R. UPDATE, published on 18 August, 2006 in response to the ipod scandal; online: <http://www.foxconn.com/ser/06110602.htm> (accessed 27 Nov. 2009).

112 Compare this to Delta: the Delta foundation does not work in Mainland China either.

time. Foxconn complies with customers' demands, also beyond the lines of technical specifications, such as on work safety and environmental protection – even if that necessitates significant investments (P18/115).

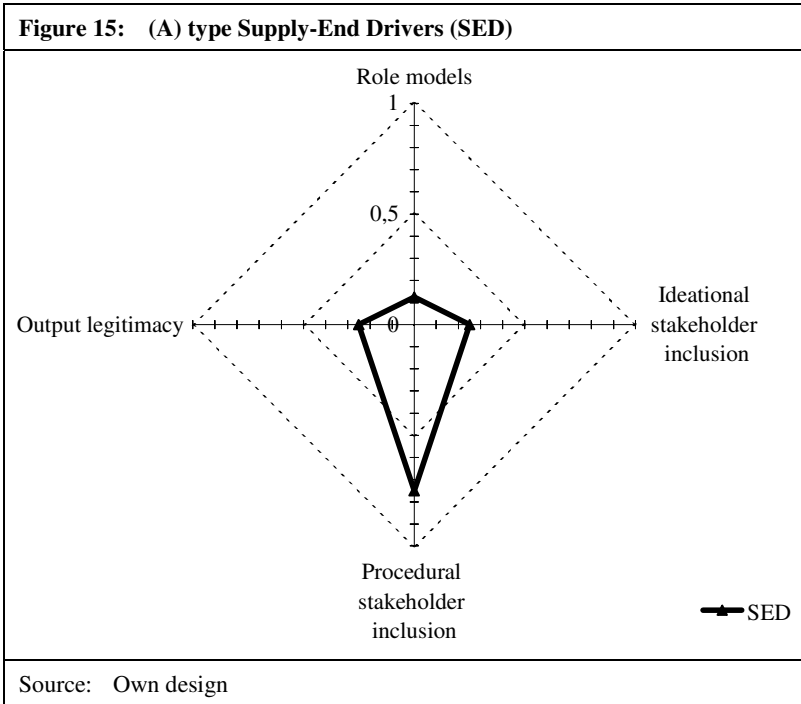
Non-market/non-state stakeholders, in contrast, find it hard to be heard at all, or experience severe counteraction by the company. There are very prominent cases of reporters having been individually sued by Foxconn for writing critical articles. Two reporters of the influential journal 'China Business News' (第一财经报; *dì yī cái jīng bào*), who wrote an article on labour conditions in Foxconn's Longhua (Shenzhen) ipod production site, have had their private assets frozen after Foxconn opened a libel case against them in the summer of 2006, demanding RMB 20 million in damages each from the journal's Wang You and his colleague Weng Bao. Having stirred up much attention among Chinese stakeholders (such as the netizen community), as much as among Foxconn's global stakeholders (Apple Macintosh itself, Apple's customers, western media etc.), this case was settled through the intervention of the Chinese government. The CCP propaganda department and also the Taiwan Affairs Office of the CCP pressed upon both sides to reach a compromise in order not to put a strain on cross-straits political relations. On 3 September, 2006 Foxconn and China Business News issued a mutually face-saving joint statement that shows the government's handwriting: "Based on the social responsibilities of constructing a harmonious society" China Business News "extends its respect to the contributions made by Foxconn to China's economic development" and Foxconn will "*respect the rights of journalists to fulfill their responsibilities, and welcome the attention and concerns demonstrated by media at home and abroad*"<sup>113</sup>.

This incident demonstrates Foxconn's very narrow concept of stakeholder and its exclusion of non-market/non-state stakeholders. However, it also showcases that there is no dominance of governmental stakeholders (which would correspond to the (dt A) type as defined in the scale for the p-variable). By suing government supervised Chinese media, which moreover argued with the Chinese labour law in hand, Foxconn in effect challenged the government. Not many companies could afford to do so. However, thanks to its "*contributions (...) to China's economic development*" (ibid.), Foxconn is at eye level at least with the municipal and provincial govern-

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113 Foxconn and China Business Review, inofficial translation of website; online: [http://news.xinhuanet.com/fortune/2006-09/03/content\\_5042764.htm](http://news.xinhuanet.com/fortune/2006-09/03/content_5042764.htm) (accessed 27 Nov. 2009).

ments.<sup>114</sup> The dominance element of the p-variable is therefore at indifference level 0.5 (see the table in the annex 8). Combining the two elements ‘stakeholder range’ and ‘dominance’, a value of 0.75 results for the procedural stakeholder inclusion variable (see annex 8).



*Output legitimacy*: economic output seems to be the main basis of Foxconn’s output legitimacy. But in contrast to other observed cases, the addressees of its legitimisation efforts are not primarily national stakeholders but rather the global electronics industry. On the contrary, for reasons of legitimacy with the Taiwanese government, Foxconn has to avoid too much interaction with the mainland authorities. The awards that are mentioned, accordingly, are not the competitiveness awards granted by mainland governmental stakeholders for achievements in local economic development (as is the case e.g. with the Private Business Pioneers) but exclusively non-Chinese customer awards and industry ratings.

114 As the majority of the Longhua county residents, are Foxconn employees, for instance.

Social and environmental output is explicitly mentioned in Foxconn's social and environmental („SER“) policies, again referencing the (OECD-based) EICC approach. Taken together, these arguments render Foxconn's efforts for output legitimacy more in line with the OECD benchmarks approach than with the identified discourse type of (A) (value 0.25; see figure 15).

One wonders, why is a Supply-End Driver like Foxconn not engaging in the global discussion on 'good business', either from the angle of an Asian Business Driver, taking on distinct (dt A) features, or from the angle of a truly global company, buying-in to the global standards and thereby reflecting its transnational stakeholders' claims? When observing this type of business legitimisation in overview, it almost seems that Foxconn shies away from the consequences and costs of its own success. It likes to adhere to the rules of yesterday's world in which the Chinese supplier silently and invisibly excelled in the global value chains, while the western buyer had been the main target of the global 'good business' discussion. In this world, social or environmental aspects, if that, were nothing more meaningful than additional customer requirements to be built-in and priced-in.

Noteworthy, this is not to say that the company *does not* act responsibly in many forms. It is credible and confirmed by many observers that "*Foxconn's commitment and investment in employees' health benefit is well ahead of the industry [and that; jw] the extent of Foxconn's seriousness about her employees' health is extremely rare in most parts of the world.*"<sup>115</sup> But Foxconn wants to act invisibly and neither contested nor commented on by non-market stakeholders, sometimes even at the price of challenging governmental stakeholders. However, in the transnational stakeholder world, and operating in the context of Chinese transformation, it is increasingly less feasible to try to remain both invisible and uncontested.<sup>116</sup> Besides, even if it is not a brand-owner, in an industry whose products get charged with connota-

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115 See: <http://www.foxconn.com/ser/06110602.htm> (accessed 27 Nov. 2009).

116 See the stakeholders' views on the China Business News settlement, e.g. Reporters Sans Frontières ([http://www.rsf.org/article.php3?id\\_article=18691](http://www.rsf.org/article.php3?id_article=18691), last accessed 27 November, 2009), or the outcry among the Chinese netizen community it caused: ([http://zona-europa.com/20060914\\_1.htm](http://zona-europa.com/20060914_1.htm), last accessed 27 November, 2009). Or: "Work harder than a donkey, eat food worse than pig's feed, wake up earlier than a rooster, finish work later than a prostitute, behave like a good grandchild, try to look better than anyone else, age five years faster than anyone else" Blog message posted by an anonymous Foxconn worker in Shenzhen, PRC, June 15, 2006; online: <http://blog.sina.com/lm/z/wengbaowan-gyou/index.html> (accessed 27 Nov. 2009), source: AMRC (2007).

tions of a positive life-style through marketing, Foxconn needs to effectively protect its customers’ highly vulnerable brands, as the ipod scandal showed. The costs of its size, impact and success in the global market – incurred by attending, and defending against, contestations by transnational stakeholders – will ultimately have to be borne by developing an own position in the global discussion on ‘good business’.

On the other hand, Foxconn, like other Supply-End Drivers, is well aware of the fact that it cannot be pushed in the direction of OECD-type stakeholder management practices too easily – at least not as long as global consumers prefer cheap branded electronic goods, and brand companies’ purchasing departments are therefore compelled to opt for the most competitive large scale suppliers: “They are slowly taking over segments of the electronic manufacturing markets in which they are now the only serious player. And if some companies are looking for certain things, that makes them able to say: we’re not going to spend a million dollars on noise reduction solutions. If you don’t like it, go and find someone else – knowing fully well that there is no-one else who can produce 250,000 pieces by tomorrow for this price and in this quality. So now we’ve got a different story and I think we’re going to see this intensify” (P18/115).

#### 5.3.2.4 New Global Brands: Lenovo

Within a relatively short time, Lenovo established a New Global Brand from the platform of second generation Private Business Pioneer. When observing Lenovo’s patterns of business legitimisation, it is not so surprising that almost all variables align well with the OECD benchmarks – its global set-up (see chapter 4.2.4) would have suggested this. Rather, the fact that the company has been moving even *beyond* the OECD benchmarks deserves attention here.<sup>117</sup> Instead of distancing and emancipating itself from the OECD standards, Lenovo fully grasps and *surpasses* the OECD-based discourse by making use of its own interpretive resources as a former American-former Chinese corporation. This New Global Brand not only embraces the good ‘business discussion’, but re-interprets it and drives it further, beyond its current limitations. This makes Lenovo a pivotal case for

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117 For this reason, the scale spanning from the (dt A) extreme to the (O) extreme has been extended to accommodate values < 0; the semantics thereof are explained below.

assessing the impact of the Asian Drivers on global discussions in this study. The observed empirical type for Lenovo is  $r^*$ ipo (membership value 0.75), whereas the  $r^*$  signifies that the extreme of (O) for the r-scale (0) has in this case been surpassed.

*Role models* take much room in Lenovo's policies and communication. These are, however, not the role models that are being developed in the Chinese discourse – references to the 'harmonious society' and its variations are nowhere to be found – but those from the OECD discussions. But whereas other companies borrow their role models and references from outside institutions and moral authorities, Lenovo moves ahead by re-interpreting existing ones – for its own purposes and on its own authority: The top managers Yang Yuanqing and William Amelio (CEO) "*define [sic!] sustainability in a simple and elegant way; we merely ask ourselves, 'Is the world better off because Lenovo exists?' Asking this question consistently and at all major corporate decision points captures the essence of sustainability and the triple bottom line*" (Lenovo 2007, 4). Furthermore, the world (which should be better-off within this sustainable development concept) is also being re-interpreted: "It is a new world, one in which business, as arguably the most powerful institution on the planet, must accept its responsibility to address the challenges we all face" (Lenovo 2007, 4). Ultimately, Lenovo defines itself as a "New World Company" which tackles the challenges of the New World using "New Thinking" (Lenovo 2007, 4).

Below the thick rhetoric, which can be attributed to a rather unique blend of Chinese and American pathos,<sup>118</sup> lies the interesting aspect that Lenovo thus assumes interpretive authority over a role model that stems from the OECD-based discourse, adapting it and using it to enrich a new self-designed role model.

The company motto 'New World – New Thinking' "reflects that the world has changed, still changes and will continue to change" (A0801/58). "New world' means that we are operating in a totally new business environment: you have to be innovative, it's a web 2.0, companies are doing their business regardless of their home country or border, and companies are sourcing the best resources, excluding time and space, and companies sell products to wherever are the best markets. And 'New Thinking' means that we

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118 Even the Corporate Communications officer for Germany and Austria, while stressing the importance of the "New World – New Thinking" motto for the company, parenthetically called the slogan a "bullshit phrase" (A0801/58).

are an innovative company in every way: in finding suppliers, in running supply chains, in managing sales channels, in doing marketing, in managing our HR and talents” (A0802/63).

In order to cater for this globalised approach, the motto also has organisational implications: It “symbolises that employees in Beijing do as good a job as employees elsewhere and that the company has to be working around the clock, there is customer service around the clock, the company never sleeps, therefore the division of labour has to be coordinated better and better. Therefore, you communicate permanently, through spatial proximity, telephone or email. And you work according to your own schedule, because you don’t get paid for efforts, but for results” (A0801/58).

All this is certainly true for any transnationally organised corporation. However, expressing this as explicitly and articulately in the form of a self-designed philosophy is rarely observed in the OECD world, and certainly avant-garde in the Asian Drivers world. Lenovo has leaped across the stage of complying with either OECD-based or Chinese discourse-based role models: By defining its self-designed role model “New World - New Thinking” and by not referencing it to any outside authority but to own leadership capacity instead.<sup>119</sup> In order to be able to include this particular observation into the design of the study, the role model-scale is being extended beyond the (O) extreme value of 0, and a value of -0.25 is being assigned (see fig. 16 below and the data sheet in annex 8).

*Ideational stakeholder inclusion:* Lenovo has made accentuated efforts to build up a charismatic brand in the past, using its founding myths (gatehouse start-up and LX-80 Han Card; see chapter 4.2.4) and the reputation of its leadership. Not dissimilar to Bill Gates, Yang is being portrayed as an iconic person with a global vision and a confident self-conception. “A chairman Yang sees himself as a global entrepreneur much more than a Chinese one. He doesn’t say: I’m the biggest *Chinese* computer manufacturer and I want to be bigger and the number one. That’s actually boring. He wants to develop a global enterprise; this is ‘New World - New Thinking’. There are various global enterprises, Sony is one. Is Sony from US? Yes? No? Japan? In some ways Sony is also German – it has been in Germany

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119 In a strict sense, seeking stakeholders’ consent not by referencing to outside role models and outside authorities, but through self-references approximates the element of ideational inclusion of stakeholders of business legitimacy (see chapter 3.1.2). For this case, the line between the two elements is blurred.



for 30 years! Not true, but this is the perception. No-one really knows what LG and Samsung are – South-Koreans, Japanese? Wherever from, they're global enterprises. Nivea comes from Hamburg, but nobody cares, Nivea is British, French, German" (A0801/84).

Conforming to the goal to establish a global brand, Lenovo's charitable activities follow a global approach and the company's core business (value 0). The company engaged in disaster relief activities after the Indian Ocean Tsunami or Hurricane Katrina, and provides assistance for 'Ronald McDonald Houses' in Germany or small business incubators in the US – each time by offering pro-bono IT solutions and infrastructure.

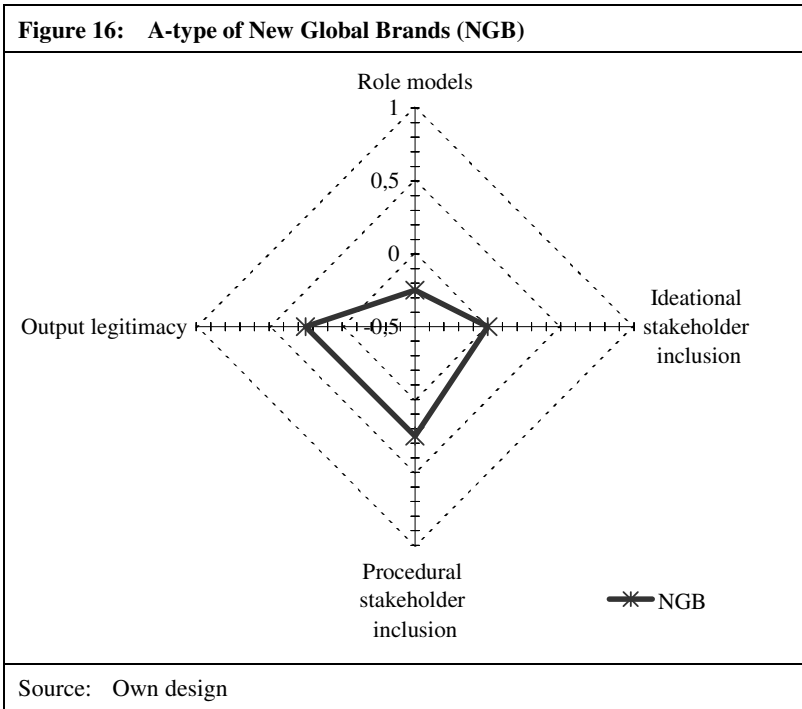
The Olympic Games in Torino 2006 and Beijing 2008 were sponsored by supplying PCs, servers, notebooks and whole operating systems including onsite engineers. "*The systems ran flawlessly for more than 360 hours over 16 days*" (Lenovo 2007, 34). According to CEO Amelio, this global showcase of its core business was Lenovo's "big coming out party" entailing "enormous image gains" (Kamp 2008a, 10, translation jw).

Lenovo's efforts to *procedurally include its stakeholders* results in an interesting balancing act as a result of the merger: from labour standards issues of migrant labourers in China (Lenovo 2007, 26) to diversity criteria for suppliers in the US, (encouraging disabled-, veteran-, gay- or lesbian-owned businesses; Lenovo 2007, 30), the bandwidth of acknowledged stakeholders is very broad.

The role of the government is ambiguous and it is not easy to state whether governmental stakeholders are dominant or the shareholders – overlapping groups in this case. The American CEO William Amelio asserts that there is no dominance of its governmental majority shareholder: "*The academy is a passive investor. In daily operations it does not interfere, as other passive investors, such as private equity firms, do not interfere. It invested US\$ 25,000 upon establishment in 1984 and earns good returns from this today*" (Kamp 2008a, 10; translation jw). Other voices, however, acknowledge at least the importance of governmental stakeholders: "We need to care for our constituency; we need to deal with the government, especially the Chinese central government, and with many key central government agencies, such as the customs, the ministries to get support from the cabinet" (A0802/28). The 'dominance factor' is therefore not decided and assigned the value for indifference of 0.5. Combines with an (O) type range of acknowledged stakeholders (value 0), a resulting p-variable of 0.25 is assigned.

Lenovo does not draw *output legitimacy* from competitiveness awards offered by the Chinese government. Awards, as manifestations of its success are mentioned and showcased in Lenovo’s communications, but the awarding stakeholders are transnational ones such as global media, consumer- or investor-related organisations. However, there is ample display of the company’s social and environmental output (HR, social investments, global supply chain, waste management, greenhouse gas emissions, energy consumption, water consumption etc), rendering it a fairly (O)-typical approach of employing output legitimacy (value 0.25).

Figure 16 gives an overview of the observed pattern. For figure 16, it is important to note that the scales have been altered in order to accommodate the exceptional role model variable attributed to Lenovo: Now, the origin of the four axes (the minimum of the scales) is at -0.5. As a result, the (O) extreme (value 0) for each variable is marked by the inner square (dotted line), the indifference threshold by the middle square and the (dt A) extreme



by the outer square. This operation expands the graph but does not change its semantics.

Ranging completely inside the indifference frame of the chart, the graph for the New Global Brand of Lenovo, illustrates how the company aligns with the OECD benchmarks, rather than with the features of the Chinese discussion for each variable. But ranging even inside the (O)-level frame for the role model variable conveys that, at the same time, Lenovo is not being driven by the OECD benchmarks, but itself actually assumes the role of a driver in the discussion. Lenovo cultivates intangible assets – its brand value – by providing a self-designed role model to its transnational stakeholders. By doing this, it walks on the same thin ice of transnational stakeholder scrutiny – in which benign images can implode overnight – on which OECD-based companies have ventured since the beginnings of ‘brand capital’ (Klein 2002). However, this is an *Asian Business Driver* in the global discussion on ‘good business’: Lenovo will concentrate on emerging markets in the future, because they generate 70 per cent of new demand for computers (Kamp 2008a 10). In consequence, its stakeholder landscape – and with it the images and role models offered to stakeholders – has to correspond to this emerging market focus. As a driver of the global discussion on ‘good business’ with a focus on emerging economies, however, Lenovo will help to shift the discussion away from its current OECD stakeholders-based gravity centre.

### 5.3.2.5 New Global Sourcers: Zhejiang Huayou and Chalco (Aluminum Corporation of China)

Although being fairly different companies, Huayou and Chalco have been observed as Asian Business Drivers according to their similar global sourcing outreach. And whereas Chalco also classifies as an SOMNE and Huayou could also be observed as a Private Business Pioneer (although in an advanced stage), the results show that observing both companies along the lines of their global sourcing activities adds valuable aspects to the research on Asian Business Drivers’ social legitimisation strategies.

Altogether, a clear convergence with OECD benchmarks can be observed for the r- and o-variables: Both companies have realised and implemented strategies of *role model* communication that besides the ones taken from the Chinese discussion, also incorporate the sustainability-related concepts taken from the OECD discussion. This reflects their recognition of a need – much

alike that of the SOMNES – to open up business policies for the discussions of the OECD context. For the institutions and authorities referenced by these New Global Sourcers, there is an emphasis on those that stem from the sustainability discussions of the OECD context, such as the GRI or the Brundtland Report (value for  $r$  is 0.38). Regarding the output legitimacy variable, whereas the national and provincial competitiveness awards play a role, the ample display of social and environmental output outweighs the purely economic output communication each time (value for output legitimacy is 0.25).

However, a significant distance to the OECD benchmark with regard to the  $i$ - and  $p$ -variables has to be noted: The companies' efforts to induce benign images and to recognise transnational stakeholders are insufficient if measured against their global sourcing environment; in the resource-seeking investments in both developing and in developed countries, new transnational stakeholders enter the scene. Arguably, for legitimacy purposes, globally sourcing companies have to include them ideationally, procedurally, or both. As is observed, neglecting the new transnational stakeholders entailed a major reputation problem for Huayou in the case of its operations in the DR Congo; as is furthermore observed, efforts to include these new stakeholders pose major challenges for Chalco on the way to materialising its Australian Aurukun investment. As observations on these two variables  $i$  and  $p$  are particularly instructive, they take more room in short excursions below. In all, the New Global Sourcers exhibit an rIPo empirical type (membership value 0.63).

The observed forms of *ideationally including* the New Global Sourcers' *stakeholders* are still locked within national framework-confined philanthropic concepts. Chalco communicates donations to poor communities in the Chinese provinces Tibet, Xinjiang, Hubei and Yunnan, to educational institutions and to retired officers. Huayou proclaims to care 'for our community' by assisting schooling and needy employees and to contribute to the Tongxiang Charity Foundation. Whereas this may be well received among Chinese stakeholders, it falls short of recognising the legitimacy risks that are determined, among others, by an array of new transnational stakeholders in their global sourcing context.<sup>120</sup> No business case relation to philanthropic

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120 It has to be mentioned here, though, that compared to the OECD case, philanthropic activities of Chinese public institutions and businesses benefiting people outside China are subject to higher justification pressure: As 200 million people in China still live in poverty, domestic stakeholders expect them to benefit from businesses' philanthropy first (cf. Altenburg / Weikert 2006, 11).

activity is made visible for both cases. In sum, the New Global Sourcers' attitudes and practices are similar to those observed for the SOMNE (5.3.2.1) and PBP (5.3.2.2) i-variables (values 1).

The consequences of this are exemplified by Huayou's experience of the summer of 2008: On 18 July, the company's executive Vice-President wondered during a discussion: "When I was operating factories in Africa, I found that the western countries, especially the European countries, see the Chinese as enemies, they don't welcome them. I feel it is difficult to understand why?" (A0501/90)

And further: "And a problem that I met recently: Samsung and BYD – a Shenzhen-based phone manufacturer – are clients of Huayou, and Nokia buys from them. Recently, these two companies received phone calls from Nokia. Nokia said: 'I heard that Huayou is doing business in Africa. We have been there, and they have child labour, they treated the workers badly. Please clarify whether this is true, and if it is true, please stop using their products.' I think that Nokia is a good company with a good reputation but I think obviously there is someone who disseminates these rumours" (A0501/92).

Just four days later on 22 July, the business news provider Bloomberg issued an extended article on child labour in cobalt and copper mines in the DR Congo's Katanga province, explicitly naming Huayou under the headline 'China Lets Child Workers Die Digging in Congo Mines for Copper' (Clark et al. 2008).<sup>121</sup> According to this article, Huayou – through its Congo Dong Fang International Mining Sprl,<sup>122</sup> that operates a smelting plant in the province – used to buy copper ore from middlemen and brokers in Katanga, who themselves bought the ore from children who frequently risk serious injury, or even their lives, when digging for the minerals by hand from unsecured wild mines.

As a direct consequence, Nokia ("*We have no evidence that they are supplying any of our suppliers*" Clark et al. 2008, 2) and Samsung ("*so far, 70 per cent of our suppliers say they don't buy cobalt from Zhejiang Huayou*" Clark et al. 2008, 2) distanced themselves from the company.

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121 See: <http://www.bloomberg.com/apps/news?pid=20601081&refer=australia&sid=aW8xVLQ4Xhr8> (accessed 27 Nov. 2009; 188,000 hits for "China Lets Child Workers Die Digging in Congo Mines for Copper").

122 The first seven hits for the company name "Congo Dong Fang International Mining Sprl" are highly critical English language websites, all referring to child labour in Huayou's subsidiary in the DRC.

By failing to associate with those child labourers, regardless of the fact that they are not employed in the company’s subsidiaries, Huayou repeats the defensive behaviour of branded OECD companies in the discussions on ‘good business’ of the early 90s: When early scandals related to social standards got notorious, Western companies employed legalistic arguments in trying to fend off incidences with image-damaging potential in their supply chain: they argued there was no contractual relationship between the brand company and the underpaid, under-aged or mistreated labourers, and hence no legal responsibility. The new quality of the international division of labour characterised by the scrutiny of global media and other non-market stakeholders and by the new communicative opportunities offered by information and communication technologies, however, induced a re-association of these indirect stakeholders with the brand companies (Weikert 2003, 115). Consequently, the Chinese child labourers in Nike’s supply chain (in the past) as much as the Congolese ones in Huayou’s current supply chain effectively *are* stakeholders of the company, because their claims impact on the businesses’ social legitimacy.

It can thus be expected that the same learning processes that took place with the OECD-based brand companies, will now start with New Global Sourcers from China – though maybe in a faster, leap-frogging manner. It is hardly conceivable that the New Global Sourcers maintain successful operations within transnational stakeholder environments unless they effectively achieve to include their *comprehensive* range of stakeholders, thereby cleaning up the stains on their corporate images. For instance, Huayou’s planned IPO might provide sufficient incentives to improve the company’s reputation, in this case with regard to financial markets. For similar reasons of reputation, Huayou can hardly afford to ignore the public plea of a global moral authority – the Kenyan Nobel laureate Wangari Maathai – who postulated in the above-mentioned Bloomberg article that Chinese companies have an obligation to act in a civil and humane manner in their African operations (Clark et al. 2008, 5).

In fact, these gradual learning steps are already visible, and the newly-established ‘Extractive Industries Working Group’ (see chapter 5.2.2.2) points at even broader, industry-wide learning dynamics. Huayou has already started to *procedurally include* – if by far not all and not yet comprehensively enough – some of the *stakeholders* who could be helpful when trying to close the legitimacy gaps that have opened up by incidences of child labour in Katanga: “Firstly, we posted an official statement on the

website, and we sent the statement to BYD and the other buyer. Also, I invited the governor of the city in Africa where the company is located, invited him to visit the factory and to check the case. I also invited the Chinese Ambassador to the DRC to investigate. I also invited the president of the local university to investigate (there are graduates from this university working in the company, so we asked those workers to discuss with the president and to introduce him to the real situation on what kind of a company Huayou is). Also, we invited the local media. Next Friday, we will report to MofCom, the department of international economic cooperation. Do you have any further suggestions how to deal with this?" (A0501/94)

Focusing the variable *procedural stakeholder inclusion*, the following observations have been made for the two cases: Whereas multiple stakeholders are mentioned, the global sourcing context would not only require to actively include a comprehensive range of stakeholders in the sourcing areas – e.g. the local communities in mining areas – but also those who associate with these local communities at a global level: international NGOs, development organisations, consumer groups and the media. The cases' practices fall short in this respect (value 0.63). However, Chalco's greenfield investment in the Aurukun area – which is currently being developed – now provides an illuminative showcase, within which *the learning processes* with regard to stakeholder recognition and inclusion of an Asian Business Driver in an OECD country context can be observed.

Chalco is now in the feasibility stage of a bauxite extraction project in Aurukun on Cape Yorke, Queensland, in the northwestern part of Australia. Aurukun is inhabited by aboriginal tribes of the Wik and Wik Way people, who won the titles over 7,500 square kilometers of land in struggles of the past decades, now held by the tribes' autonomous Aurukun Shire Council.

The small aboriginal community is one of the most disadvantaged communities in Australia, combining numerous social problems: "It's in the news for rioting and sex offences and you name it and it happens in this little tiny community. And this is the community where the mine is" (P11/20).

"So, if it was Africa, the Chinese could sort of rush right over them. But this is an indigenous community with two or three highly educated people and advisors amongst them; the head of the Ford Foundation here is closely involved with this, his brother is their lawyer" (P11/24). Furthermore, the communities are embedded in a close institutional environment. Besides the

land titles and the Aurukun Shire council, there are the community police, the Queensland justice department, an Aurukun facility and town planning strategy, training and employment strategies, women's groups, sports and recreations programme, a Wik Arts Centre, radio stations etc. "So, the forces on the side of the Australian community are pretty strong" (P11/24).

In this project, Chalco meets a wide range of empowered local stakeholders who on the one hand welcome the Chinese investment as a chance for local economic development, on the other hand have readily-defined rules at hand, such as e.g. sustainable development principles, with which the investors are expected to comply. David Kelly, adjunct professor of the University of Technology in Sydney acts as a Beijing-based advisor to the Wik community and negotiates the sets of rules and standards accompanying the investment with Chalco.

Among those, a Social and Economic Impact Assessment, an Environmental Impact Assessment, Indigenous Land Use Agreement, and a range of monitoring activities are being negotiated. To arrive at mutually beneficial results, Mr Kelly can draw on his command of the Chinese language for key written documents, on his knowledge of and common features of Wik and Chinese culture (such as aspects of social relations based on kinship, respect for age and tradition in Confucianism, respect for nature in Daoism) and even on a positive history of Chinese-indigenous relations: pre-revolution immigration of Chinese in northern Australia and even inter-marriage between Chinese and Aborigines had been frequent (A0901/22).

As a result, the powerful Chinese SOMNE, whilst enacting its global sourcing strategy, has to thoroughly consider the social ecology and cultural heritage of a mere 1,100 Wik people, its community development priorities (projects in the arts, hospitality and health services, employment, youth development etc) (Kelly 2008) and commit more than AU\$ 2 million (US\$ 1.4 million) during the feasibility phase as part of a detailed sustainable development plan for the Aurukun communities (Buttner 2007).

David Kelly discusses the rules of Chalco's engagement with the Project Manager of the Aurukun Project, Liang Zhongxiu (梁中秀), who in turn has good command of inter-cultural communication skills. The Wik people appreciate his ability to talk and listen to local people. "He is sitting on the ground of a hut with the local chiefs – something that officials in Australia would never do" (A0901/21).

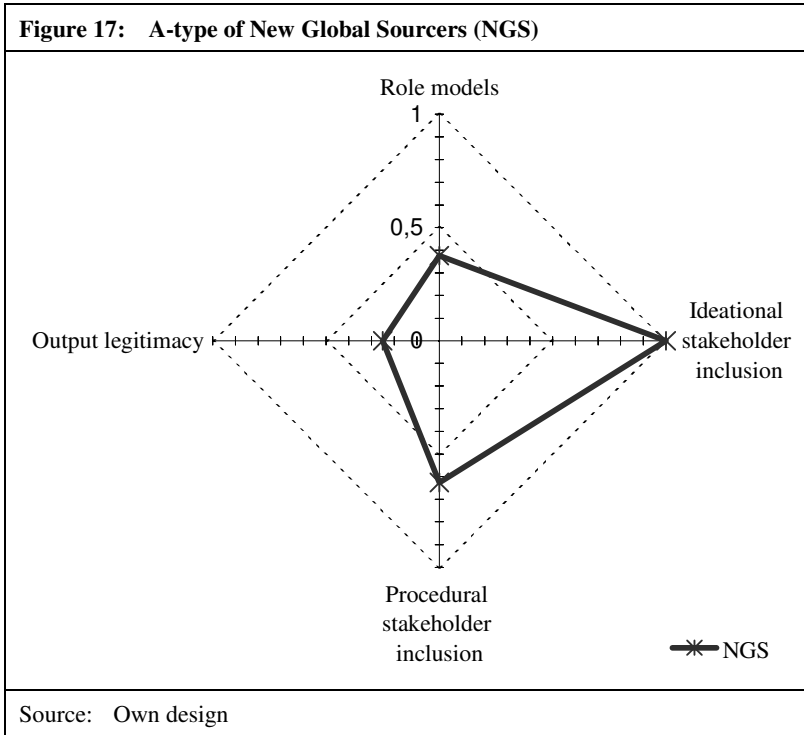


If this practice leads to a successful investment of a Chinese mining sector SOE in an OECD country, it provides an impressive positive contrast to the reports about Chinese overseas mining investments which have been so far circulating in the OECD world. The rapid advances of Asian Business Drivers, now also with regard to the global discussion on ‘good business’, would find a highly visible showcase reference in the Aurukun project.

“So far, so good! It’s just a very interesting development to watch. Will Chalco grasp this opportunity? It’s a complete green field: this is mangrove forests, beaches etc, they have the opportunity to do it environmentally friendly and they have this disadvantaged community that they can really help” (P11/20).

The conclusion from the observation of the New Global Sourcers is that recognition and inclusion of stakeholders (either by ideational or procedural means) that would suffice their legitimacy requirements is not yet accomplished – however, being tested at the moment – by the emerging Chinese global players. They have to learn abroad – more often the hard way – how to adopt and apply norms and standards that are absent or not enforced in their home bases (Gereffi / Humphrey / Sturgeon 2005, 85). OECD-based firms entered the global supply chains – and simultaneously the discussion on ‘good business’ – from the vantage point of a higher level of environmental and social standards: The standards had developed and had to be implemented in the familiar institutional environments of the OECD world even *before* businesses went global. The *New Global Sourcers*, in turn, did not have their home markets as testing grounds for the standards applicable in the global spheres of interaction.

Huayou’s manager Li reckons that “*Africa is full of opportunities—it’s just like China when we started opening up a few years ago*” (Reynolds 2008, 1). Very probably, the African context reminds him also of the weak institutional environments in transforming China. The difference to China is, however, that in the case of investments in African countries there are rival interests of OECD investors and also an array of new transnational stakeholders. Thus, either through trial and (costly) error as in the case of Huayou, or through a more precautious and far-sighted approach, as in Chalco’s case, Asian Business Drivers are at this very moment facing tough lessons of climbing global levels of engagement standards in overseas regulative and stakeholder environments while having never had the chance to practice them at home.



### 5.3.3 In between Chinese (dt A) and OECD-based (O) discourses: What are the specific features of business legitimacy displayed by Asian Business Drivers?

Chapter 5.3.2 examined the five classes of challenges to Asian Business Drivers’ legitimisation with the help of four scales that span across the spectra of values between the extremes of the Chinese discourse on ‘good business’ (dt A, value 1) and the corresponding OECD benchmarks (O-type, value 0). Table 9 gives an overview of the results that have been developed in chapter 5.3.2.

There are two ways of reading table 9: First, when reading the columns, the observation of the RIPO elements of business legitimacy displays the variance *within* the set of empirical cases. This variance indicates that when inferring from this the Asian Business Drivers’ legitimisation patterns (A), it indeed makes sense to observe not one monolithic category but different classes.

Besides, this view makes it possible to assess the relative proximity or remoteness of (A) and (O) according to the identified elements of business legitimacy. The features of (A) that this perspective brings to light are summed up in chapter 5.3.3.1.

<b>Table 9: Overview of empirical (A) types</b>					
<b>Case</b>	<b>Role models</b>	<b>Ideational stakeholder inclusion</b>	<b>Procedural stakeholder inclusion</b>	<b>Output</b>	<b>(A) type (membership value)</b>
SOMNE	0.125	1	0.38	0.25	rIpo (0.63)
PBP	1	1	0.75	0.75	RIPO (0.75)
SED	0.13	0.25	0.75	0.25	riPo (0.75)
NGB	-0.25	0	0.25	0.25	r*ipo (0.75)
NGS	0.38	1	0.63	0.25	rIPo (0.63)
Source: Own compilation					

Second, when reading across, finally, the variation of cases of Asian Business Drivers to OECD modes of legitimising business can be assessed. This assessment leads to conclusions on the variation assumption, and thus the overall research. This perspective is being assumed in chapter 5.3.3.2, before chapter 5.3.3.3 draws conclusions on the results.

### 5.3.3.1 Features of (A) in the perspective of elements of business legitimacy

When reading the columns of table 9, the Asian Business Drivers' patterns of legitimising business can be characterised as follows:

Including stakeholders by reference to *role models* takes on similar forms for all examined cases, except one. Whereas the OECD role models are broadly adopted, only Private Business Pioneers employ references to role models that stem from the Chinese domestic discourse. Another way to interpret the same fact, however, is that Pioneers have impacted the discourse of post-revolutionary private business in China to a great extent. The discourse has referenced these businesses and the particular Chinese circumstances in which private business activity started all over after 1979, while the next generations of

successors moved on to embrace the OECD role models that dominated in the global frameworks of action.

For *ideational stakeholder inclusion*, there is a high variance in the set of observed cases. While the Supply-End Drivers and New Global Brands embrace the core business case for their legitimising efforts, thereby including stakeholders well beyond the national framework, all others revert to philanthropic models, including only national stakeholders. Arguably, the former two are most directly exposed to transnational stakeholders’ scrutiny, while the latter still overwhelmingly rely on a domestic ‘home base’ of stakeholders.

In a similar fashion, the observed Asian Business Drivers’ efforts to *procedurally include stakeholders* are varied: the State-Owned Multinationals and the New Global Brands consider broad ranges of stakeholders, not necessarily favouring governmental ones; all others display narrower and government-dominated patterns. Here, size seems to matter: more than others, the big new multinationals might have earned certain degrees of autonomy from the government already as they have moved out in the global market.

In the *output legitimacy* view, only the Private Business Pioneers stand out by exhibiting distinctively Chinese ways of legitimising their actions. For all other cases, references to more forms of output than just economic prevail – as is the practice for the OECD benchmarks.

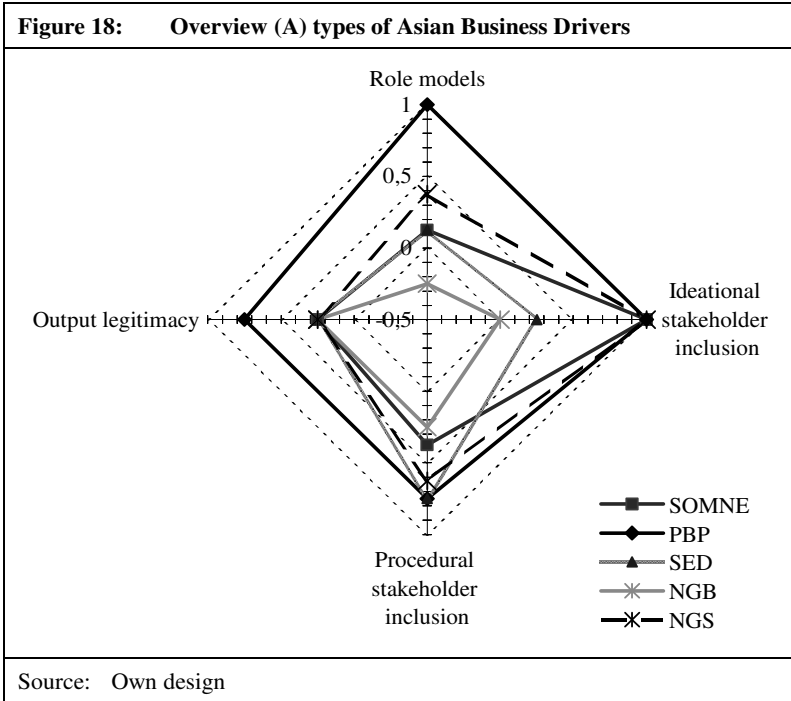
An overview of all the elements of business legitimacy in table 9 makes evident that the Private Business Pioneers seem to make up a class of their own. They seem to be inclining towards the (O) type to the least extent. However, and as seen before, the Pioneers are of decreasing importance in the global sphere (see chapter 5.3.2.3), so that their results will be left aside for a moment. Keeping this omission in mind, the following statements can be made:

The Asian Business Drivers exhibit most variance to the (O) type – and thus the greatest potential for friction in the global spheres of interaction – for stakeholder inclusion practices (i- and p-variable). The potential consequences of neglecting new transnational stakeholders have been spelled out for instance for the case of New Global Sourcers (see chapter 5.3.2.5). Ideationally and procedurally including the new transnational stakeholders seems to be the greatest legitimisation challenge for Asian Business Drivers.

In contrast, least variance to the (O) type can be stated for role models and output legitimacy. It seems that these two elements are ready for convergence to

the (O) type more easily and with less friction. These observations of variance and proximity between instances of (A) and (O) will be returned to when delineating policy recommendations in chapter 6.

Figure 18 illustrates the overview of (A) types and the points to the variance within the set.



### 5.3.3.2 Features of (A) in the case perspective

The second perspective on the results emphasises the legitimacy challenges faced by each of the classes of Asian Business Drivers (rows of table 9). As mentioned, the Private Business Pioneers stand out on the (dt A) side of the spectrum in the most clearly, displaying a pure ‘RIPO’ characterisation. In contrast, closest proximity to the OECD benchmark throughout all variables is attested to the New Global Brands, displaying the peculiar ‘r\*ipo’ type. As extensively discussed for each class in chapter 5.3.2, the results in the rows of table 9 suggest that:

State-Owned Multinational Enterprises, although part of the structural organisation of the Chinese socialist polity, assume the role models and stakeholder orientation concepts taken from the OECD debate. Their rIpo type matches the (O) type well, with the important exception of varied forms of ideational stakeholder inclusion.

Private Business Pioneers almost perfectly align with the domestic Chinese discourse, displaying the perfect RIPO-type. The reason for this is that they were (together with the SOEs) the exemplary references for the Chinese domestic discourse. However, the Pioneers' class consists of the most labour-intensive and least knowledge-intensive industries that face competition on low wages from other countries and competition on higher productivity from within China, to the effect that only a fraction of the Pioneers will survive the imminent market consolidation. Therefore, this ideal-type, despite being closely linked to the domestic discourse, is of decreasing weight in the global 'good business' discussion.

Supply-End Drivers align with the O-type, with the important exception that they are not inclined to recognise and procedurally include non-market/non-governmental stakeholders. Rather, they seem to bet on superior market positions to immunise themselves against the consequences of transnational stakeholder scrutiny.

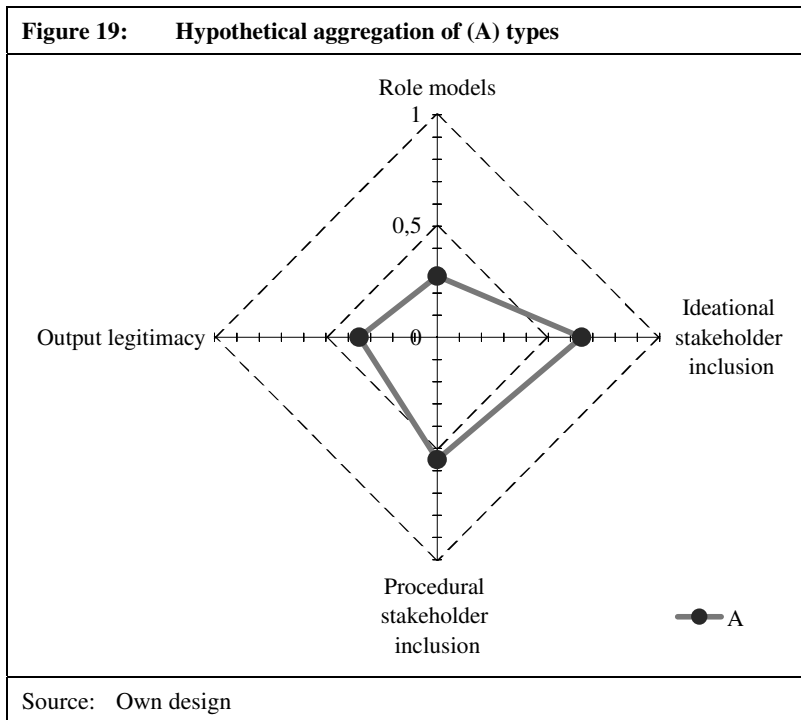
New Global Brands are 'avant-garde' for designing new action-guiding role models that in fact incorporate the ones of the (O) type, but even surpass them and, thus position themselves as significant actors in the future global debate on 'good business'. In contrast to the Pioneers, the New Global Brands can be expected to further excel, noteworthy, by assuming a clear focus on emerging markets.

New Global Sourcers have so far failed, but are now learning to ideationally and procedurally include the array of new transnational stakeholders in their global sourcing environment. As is said of Chinese actors elsewhere, they seem to be fast learners on the subject.

### 5.3.3.3 Interim conclusions

After having displayed the variety within the set and subsequent to the detailed observations according to the classes of Asian Business Drivers, the bigger picture should be perceived: if reducing complexity and looking at

these results in an aggregate overview that abstracts from the variances within the set.<sup>123</sup> The most imminent conclusion is that the (A) types *do not* significantly vary from the (O) benchmark. In aggregate, the results of the empirical module 2 suggest that the Asian Business Drivers' legitimisation practices *align rather well* with the OECD benchmarks, and significantly so for the elements 'role models' and 'output legitimacy'. The (hypothetical) aggregation of the empirically derived (A) types in figure 19 shows that the r- and o-variables fall *within the indifference level* (dotted line at 0.5 value) and that the i- and p-variables, although they fall beyond the indifference level within the



123 It must be noted that generalisations across the five (A) types have to be regarded as hypothetical abstractions from the empirical results: Whereas the construction of the various ideal types (A) are the results of the survey, the aggregation to a 'hypothetical' aggregate (A) type emphasises these results in a rather heuristic manner, with the aim of illustrating the most important result.

(dt A) side of the spectrum, do so only marginally.<sup>124</sup> This conclusion would be even more substantial if the Private Business Pioneers were eliminated from the sample for the reasons mentioned before.

This result is challenging the VA (see chapter 2.1.4.1), which holds that there is a *significant variation* between the (O)- and the (A)-type. It poses a contradiction to the results of the empirical module 1 (see chapter 5.2), stating the existence of *distinctively Chinese concepts* for ‘good business’ that have been identified in the Chinese domestic discussion.

How can the extended discussions on distinct varied Chinese role models and alternative concepts for ‘good business’ be explained when at the same time Chinese businesses align rather well with the OECD benchmarks? This contradiction requires a review of the variation assumption, and thus of the research design of this study.

## 5.4 Interim results: reviewing assumptions

### 5.4.1 Contradictory results

The first two empirical modules employed in this study reveal contradictory findings. The findings of empirical module 1 portray that the Chinese domestic discourse emphasises *variation* from the OECD models of business legitimacy, perceived as foreign. Findings of empirical module 2, in contrast, indicate that emerging Chinese Global Players’ practices of legitimising business rather *correspond* to the OECD benchmarks. This contradiction needs explaining.

One could argue that the observation that a given public discourse hints in one direction, while the realities follow another – even more so for a society where the freedom of expression and thus means for counterweighing official language through deliberative processes, is restricted – might appear trivial. However, revealing the dynamics behind such a contradiction is *not* a trivial task.

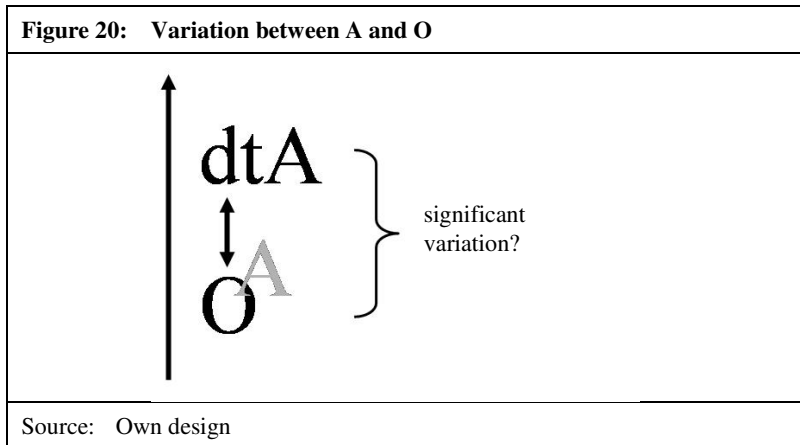
The theoretical literature frames variation between (A) and (O) within varied institutional configurations of the respective political economies (see the ‘varieties of capitalisms’ arguments in chapter 3.1.4.1). From the trans-

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124 Please note that here; the minimum of the axis once again is 0, as the negative r-value for the NGB is eliminated by aggregation in the A-type.



action-cost conscious rational actor perspective, however, significantly varying Asian Business Drivers' models which do not connect to the OECD ones seem unlikely (see transaction costs arguments in chapter 3.1.4.1). How can the theoretical expectations be synthesised in order to make sense of the contradictory empirical results? The empirical observation of varying degrees of proximity between (A) and (O) suggests that both expectations are justified, however, to different degrees for different cases. (A) results from a *combination* of varieties of capitalisms- and transaction costs arguments.



Going back to the empirical cases highlights this conclusion: State-owned Enterprises would find it hard not to act according to their role as a part of the institutional set-up of the socialist Chinese society. They are obliged to prioritise the national stakeholders' concerns over those of the transnational stakeholders. For instance, safeguarding the supply of energy goods to Chinese stakeholders is high on the SOMNEs' agenda, while regarding the social circumstances of extraction in foreign countries is less so. Furthermore, the institutional set-up they operate in does not dictate living up to a 'business case' of social responsibility: Even if their core business is operating at losses – as is for instance the case when keeping fuel prices lower than world market prices would allow – the businesses are being re-financed by the state. Neither are philanthropic activities that SOEs get involved in expected to make a 'business case'.

The institutional conditions of the Chinese variety of capitalisms thus induce varied forms of business legitimacy from the (O) type – most clearly so for the ideational and procedural forms of stakeholder inclusion (i-, p-variables, see chapter 5.3.3.1). On the other hand, the empirically observed forms of stakeholder inclusion are not in all cases complimentary to the Chinese circumstances. The low i-values for the Supply-End Drivers (SED) and New Global Brands (NGB) as well as low p-levels for the SOMNEs and NGB point to this fact. However, to the extent that for the rest of the observations strong inclinations towards the (dt A) type are stated, complementarities to the Chinese institutional set-up can be identified in each case.

Furthermore, transaction cost-induced incidents of alignment can clearly be identified. In terms of costs of processing global transactions and in terms of living up to best practice benchmarks in competition, Chinese multinational businesses – just like other globally operating companies – need to align with global standards and norms. This also holds true beyond mere technical areas and is confirmed by these statements of international and domestic experts in the field:

*“As Chinese companies build brands, believing they have got a global future – they are going for the internationally accepted instruments. (...) They are going to go for best practices and they know very well that all their competitors are using those and not to use those is a disadvantage”* (Stephen Frost, Director CSR Asia; P18/100).

*“When transnational corporations are disseminating CSR concepts in China, Chinese enterprises should follow the trend to learn from the experiences of the former and to improve their own soft competitive strength”* (Wang Zhile, Director, Research Center on Transnational Corporation, CAITEC, MofCom; P2504/24).

As the Huayou case exemplified, significant transaction costs (inviting the Chinese ambassador and the local university professor, doing investigations) incurred<sup>125</sup> by disregard of transnational stakeholders’ expectations for avoiding child labour in the mobile phone supply chains. In order to avoid these costs, Huayou will certainly align its policies accordingly in the future. Operating in a market where extremely thin margins dictate a business model that

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125 This is, of course, besides the threat of falling out of the supply chain completely, as Nokia (via BYD) might cancel orders.

relies on scale production exactly according to clients' product requirements, Foxconn can not afford to grossly ignore the clients' management requirements, which include references to sustainable development role models and expectations of social and environmental output. In value chains in which smallest institutional variances discriminate a profitable situation from a loss situation, compliance with all standards is the solution that reduces transaction costs.

#### 5.4.2 Review of the variation assumption

If both variation and alignment can be stated and explained, then the first of the two basic sentences of this study, the variation assumption (2.1.4), needs to be reviewed.<sup>126</sup> To this end, a dynamic perspective has to be assumed, which both allows for and explains situations in which patterns of variation and convergence are found at the same time. Such a dynamic perspective capable of resolving the contradiction posed by the so-far empirical results is proposed in the following in order to guide the research in empirical module 3.

As the cases exemplify, the RIPO patterns of business legitimacy are results of interaction between (A) and (O) in the global value chains (see chapter 3.2.1.1). However, the conditions of this interaction are affected by global change: by the rising bargaining power (see chapter 3.2.2.1), more often identified as rising soft power (see chapter 3.2.2.2), of the Asian Business Drivers. Adding the dimension of global change to the results so far, therefore means to account for increasing degrees of *interpretive authority* on the side of the Asian Business Drivers over the discussion on 'good business'.

The variation assumption is thus being reviewed here: At the conclusion of the two comparative empirical modules 1 and 2, the variation assumption has not been conclusively confirmed or falsified. Obviously, the merely dualistic approach towards the topics of this research (variation *or* alignment to O-type) does not do justice to the complex dynamics at play. If accounting for increasing degrees of *interpretive authority* on the side of the Asian Business Drivers, *processes of entering into or rejecting agreements* on interpretations of legitimate business can be observed. And whereas indeed contra-

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126 Please note that in contrast to falsificatory approaches, refining and re-formulating assumptions and hypotheses forms part of a qualitative (moreover grounded theory-informed) research process.

dictory patterns of variation and alignment may occur simultaneously in the historical processes (and may be explained by VoC or transaction costs logics), *common mechanisms* might nevertheless steer these processes. Reviewing the variation assumption by adding the global change aspects to the results so far should therefore bring mechanisms to the surface that prove useful for tackling the second basic sentence of this study, the hypothesis that states the impact of (A) on (O) (impact assumption; see chapter 2.1.4.2), in the following.

There is more than one way to enter an agreement, and there is more than one way to reject an agreement. As is argued here, the different forms in which Asian Business Drivers enter or reject agreements on interpretations of business legitimacy are determined by the prevalence of (A) and degrees of bargaining power. Both aspects combined inform a pattern model that reviews the variation assumption. Table 10 illustrates the genesis of this model. The scale for (A) values is used in analogy to empirical module 2: 0 means perfect conformity to (O), and 1 perfect conformity to (dt A). Degrees of bargaining power are modeled within a two-sided scale which has maxima on both sides and its minimum in the center. The combinations of prevalence of (A) and degrees of bargaining power characterise particular patterns of entering into or rejecting agreements.

<b>Table 10: Pattern model for entering agreements</b>			
<b>Variation assumption (VA)</b>	<b>(A) value</b>	<b>Degree of bargaining power</b>	<b>Pattern</b>
<b>Impact</b>	<0	Very high	Innovation
<b>VA challenged: alignment</b>	0	High	Engagement
	0.2	Medium	Defensive embrace
	0.4	Low	Captive compliance
<b>VA confirmed: variation</b>	0.6	Low	Circumvention
	0.8	Medium	Embracing defense
	1	High	Rejection
<b>Impact</b>	>1	Very high	Introducing own rules
Source: Own compilation			

On the side of the spectrum, where the results challenge the variation assumption (as rather an alignment to the (O) type is being observed) three patterns of *entering into agreements* can be identified:

- *Captive compliance*: agreements are entered into because of factual inferiority in asymmetric power situations; actors have low interpretive authority.
- *Defensive embrace*: there is overt disagreement but the agreement is still being entered into silently, because of reduced transaction costs.
- *Engagement*: agreements are entered into on a voluntary basis and out of the recognition of mutual benefits resulting from orientation to (O) models, from a position of elevated interpretive authority.

On the side of the spectrum, where results confirm the variation assumption (as degrees of variation are being observed), combining (A) values with degrees of bargaining power again results in three patterns, this time of *rejecting agreements*:

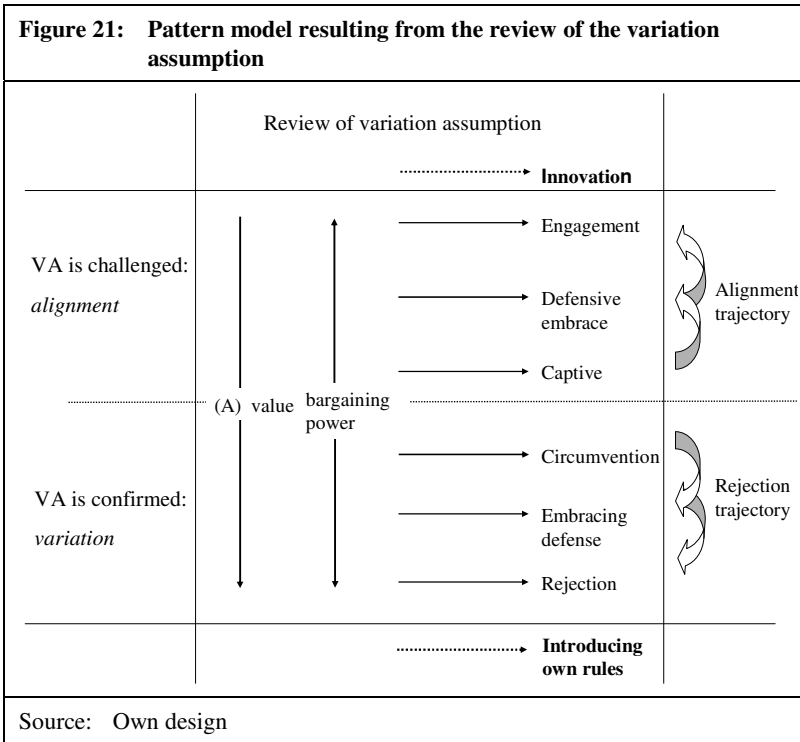
- *Circumvention*: implications of agreements are circumvented because inferior positions in asymmetric power situations do not allow to voice dissent openly; low interpretive authority over discussion on ‘good business’ prevails.
- *Embracing defense*: consent to the agreement is being voiced, but the implications of agreements are silently being fended off, because they are not complementary to the requirements of one’s institutional environment.
- *Open rejection*: agreements are rejected because they are not complementary to the requirements of the institutional environment *and* because the actors can afford to reject them; they have assumed elevated levels of interpretive authority and have self-designed (A) models.

In this pattern model, the most illuminative parts with regard to the IA, are so far beyond the reach of the variation assumption: on the one extreme, *impact* is exerted at incidences for which alignment with (O) is completely accomplished ( $A=0$ ) or over-accomplished ( $A<0$ ) and combined with high levels of bargaining power – as observed for the NGB case (5.3.2.4). This is where Asian Business Drivers impact the global debate by innovative concepts based on the (O) type. At the other extreme, whenever alignment with (dt A) is completely accomplished ( $A=1$ ) or over-accomplished ( $A>1$ )

and combined with high levels of bargaining power, this is where Asian Business Drivers *impact* the global debate by introducing and defending self-designed concepts of business legitimacy.

These two extremes mark occasions for which the impact assumption is being confirmed. In both extremes the Asian Business Drivers, by virtue of an increased level of bargaining power, make use of increased *interpretive authority*, with the effect of impacting on the global ‘good business’ discussion.

Figure 21 illustrates this pattern model. It becomes evident from this illustration that the notion of increasing bargaining power on the side of the Asian Drivers (see chapter 3.2.2) implies two different trajectories shaping the processes. Asian Business Drivers *less frequently* display patterns in the centre of the model (low bargaining power levels) and *increasingly* often patterns at either the alignment or rejection extremes of the model (higher



levels of bargaining power). The trajectory in which increasing levels of interpretive authority over the debate on ‘good business’ are assumed on grounds of (O) (eventually surpassing and innovating (O)), is called ‘alignment trajectory’ from now on. The trajectory in which increasing levels of interpretive authority over the debate on ‘good business’ are assumed on grounds of (A) type models of business legitimacy (eventually introducing self-designed rules), is called ‘rejection trajectory’ from now on.

Two examples render this abstract concept more tangible: a supplier firm that has left captive positions in its value chain for its increased market share, may now afford not to follow a given buyer’s requirement, while *still* receiving its orders: The buyer simply lacks alternative suppliers that deliver at the same price, quantities and lead times. In such a case, the supplier no longer has to employ deceptive means (circumvention) when disagreeing with the buyers requirements; it just openly rejects them (see example in 4.2.3.1).

A further case exemplifies the other trajectory: A multinational corporation from China might emphasise throughout its communications the variance and incommensurability of its business model to the western concepts, and nevertheless employ the set of GRI indicators, because it wants its report to measure up with its global competitors’. It might exhibit exactly the same practice as its OECD competitors, but attach ‘Chinese characteristics’ to it when communicating.

Empirical module 3 traces the mechanisms that steer the processes of impact of (A) on (O) by making use of these trajectories. The trajectories comprise in an ideal-typical manner of the two realities observed by the results so far: variation in the discourses and degrees of variation and alignment in the business realities.

### 5.4.3 Preparing the impact assumption

The pattern model in figure 21 is here used as guidance when assessing the impact of Chinese actors on the global efforts to define legitimate business. The model is the result of the hitherto static analyses. It displays mechanisms that might be at play in the chain of events under observation.

Before an introduction to the set-up of the process analysis below, a few features of this study’s design are recalled: This research wants to deliver

meaningful statements on the future global debate on ‘good business’ (O’). The so-far static analysis on (A) in relation to the (O) benchmark found that the (A) type is generated *within a discourse that stresses variation from (O), while at the same time aligning rather well with (O)*. Therefore, the interaction between (A) and (O) – shown in various forms of entering into or rejecting agreements – has been brought into focus when reviewing the variation assumption (see chapter 5.4.2). Instead of (A) as such, the *interaction between (A) and (O)* is now assumed as the independent variable which exerts impact on the dependent variable O’ ( $O' = f(O; A)$ ; see 2.1.2).<sup>127</sup> Thereby, this interaction is assumed to take on different forms (patterns in table 10) that are contingent on the Asian Business Drivers’ relative bargaining power.

As the variation assumption has thus been refined and replaced by a more differentiated pattern model, this also has to be accounted for in the IA:

IA: Relative to the various forms of interaction between (A) and (O), Asian Business Drivers’ significantly impact the global efforts to define legitimate business behaviour. The interaction between (A) and (O) significantly impacts the development of (O) (= O’).

The design  $O' = f(O; A)$  (see chapter 2.1.1) can now be reviewed in order to settle the empirical module 3 (process analysis) within the overall research design: the interaction of (A) and (O) (term (O; A)) has been scrutinised by the empirical modules 1 and 2. For (O’), two different alleyways have been identified as a result (see fig. 21): an impact of (O; A) on (O’) can be expected, where (O) is fully embraced and further developed (‘innovation’), or fully rejected and replaced by alternative concepts (‘introducing own rules’) by Asian Business Drivers.

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127 One interviewee (World Bank Group) verbalised this inter-relatedness as such: “It is not a matter of them [emerging market multinational companies, jw] coming and changing the rules – we are all changing the rules. We are part of the change process. So the issue is not only how we deal with them as a given, but how we change ourselves and how we change them in that particular process [...] Dealing with [multinational company from Mexico] is not only meant to assist them understanding the needs of the poor in Mexico. But in this process, [multinational company from Mexico] hopefully will also build capacity to better adjust the way how they compete and also address the social and environmental issues in their US or UK markets. So, indirectly we are also shaping what is happening in the developed world. And this element is very often neglected by development agencies” (E06/34).



## 5.5 The impact of Asian Business Drivers from China on the global business legitimacy governance

The historical perspective now complements the static analyses by identifying, in the processes under observation, *mechanisms* through which the causal relationship  $O' = f(O; A)$  is being conveyed.

*“Mechanisms are ‘recurrent processes linking specified initial conditions and a specific outcome’”* (Mayntz 2003, 4 f.). *“This language of mechanisms is particularly helpful in reducing the lag between input and output, between cause and effect”* (Checkel 2005, 4), whereas here the cause is the (A)-(O) interaction and the effect is (O’).

In order to arrive at meaningful statements on the effects (O’), the following dynamic analysis has to be able to carefully map the relevant processes and to explore the extent to which they coincide with prior theoretically derived expectations about the workings of the causes and mechanism (Checkel 2005, 4).

The theoretically derived expectations underlying the identification of mechanisms in the course of the process analysis are the two identified trajectories (see fig. 21): While both mean that actors assume increasing degrees of interpretative authority, they point in opposite directions: The ‘alignment-trajectory’ anticipates fully embracing and soon innovating existing rules, whereas the ‘rejection-trajectory’ anticipates emancipation from the existing ones and soon introducing own rules.<sup>128</sup>

The particular process under observation in chapter 5.5.2 is the reception of the OECD-based standard Social Accountability (SA) 8000 (SAI 2008) in China. SA8000 can be understood as an empirical type of the ideal-typical (O), which is more visible in the markets than the OECD guidelines. As it requires audits and certification processes, many empirical bargaining processes surrounding SA8000 can be observed.

For the analysis of the SA8000 reception process, the following questions are instructive: Can the *a priori* derived trajectories be identified as having started the processes? Can the patterns of interaction of (A) and (O) be identified to have played a role in the bargaining processes? Can incidences of shifting bargaining power be identified to have played a role in the actors’ decisions?

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<sup>128</sup> The discernment between the two – regarding the greater relevance of the one or the other – is subject to qualifications hereafter.

On grounds of the complementary historical and static analyses of causes and mechanisms at work, meaningful statements on the effects – the impact of the Asian Business Drivers’ practices of legitimising business on the global debate – are derived.

### 5.5.1 Phases of the discussion on ‘good business’ 2001–2008

Whereas the analysis of the contemporary domestic Chinese discourse on ‘good business’ has been portrayed in chapter 5.2, this chapter elaborates on how the discourse arrived at its current state. In order to embed the observed processes in a historical context, this chapter briefly sketches the phases of the ‘good business’ discourse in China.

The discourse can be grasped in three broad phases, whereas the phases are – again – ideal typical in nature: as with any societal trends they have no clear boundaries and are overlapping. More or less dense clusters of relevant historical incidences, however, indicate the early and the peak times of a phases, and finally at the retraction of the mechanisms which characterise each phase. As the time frame, the “third period of improvement” according to Zhile (Wang Z. 2007; see 5.2.1.3) – the period since China joined the WTO in December 2001 – is assumed (see historical time line in fig. 22).

By and large the phases outlined here also relate to the stages of the discussion according to Zhou Weidong<sup>129</sup> (P15/20) but are complemented by further notions on describing this discourse process by various experts (s. 5.1). Zhou identifies: an introduction phase, in which the discussion has been brought to China as a side effect of the Multinational Enterprises (MNE’s) sourcing operations; the ‘wait-and-see-years’, during which the Chinese actors observed and researched the issues, but only reluctantly or on defensive terms engaged in the discussion; and finally the engagement phase, in which the current political leadership embraced the discussion and re-interpreted it in terms of the ‘harmonious society’ programme (Zhou 2006, 5 f.). A different angle on the same historical phenomena is provided by Guo Peiyuan.<sup>130</sup> “First, you understand the rules, second, you obey and follow the rules – so you join the group – and third, you can be part of the

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129 China Director of Business for Social Responsibility (BSR).

130 General Manager of SynTao, Social Responsibility in Business and Investment.

rule-makers. If Chinese companies become familiar with them, then they have a voice when the global society establishes the rules” (P10/12).

### 5.5.1.1 Introduction phase: Captive compliance and circumvention

In the first phase of the discourse, the *introduction phase*, patterns of captive compliance or circumvention of the rules, which were brought to Chinese actors through global value chains, prevail. Thereby, patterns of captive compliance are observed along ‘alignment-trajectory’ processes and patterns of circumvention along ‘rejection-trajectory’ processes.

The most comprehensive foreign compliance system that the Chinese economy underwent in this phase was the WTO (P16/40). However, besides this comprehensive system, consciously entered into by the political leadership, the economy was further challenged by the private governance dominating the global value chains that began to extend into China. The foreign private sector-led compliance systems consisting of MNE’s Codes of Conduct and Corporate Social Responsibility policies were the manifestations of the advent of the OECD-led discussion on ‘good business’ in China.

“When the trend started all around the world, China was still in the process of joining the WTO and fulfilling its commitments for joining the WTO. As a result, more attention was paid to how to deal with the challenges brought about by joining the WTO, instead of understanding the new surging trend of strengthening corporate social responsibility. Some criticised it as a green barrier to trade set by the developed countries. Some simply overlooked these responsibilities because they just regarded them as a show put on by multinational companies” (P2502/82). However, at the ‘captive’ positions of the global value chains this ‘show’ had to be complied with if the orders from the MNEs were to be kept. Or, as this OEM producer points out:

“Most of the brand names fix the requirements. They told us where to buy our material. Suppose for Nike, they will appoint the supplier from whom we buy the fabric. You must obey them. We cannot get the same quality-fabric from another supplier. No. Because Nike trusts this particular company, we must buy from them. They are on their list of suppliers” (A0305/69). “And they have the Code of Conduct (CoC). Before they had more than 200 suppliers, but now they sort out, because some are not qualified from a social and environmental point of view. Because some did not

match their standard in terms of working hours and for the workers’ providence fund, they don’t have a basic salary and the working environment is not so good. But we have an air condition, we are not crowded, the workers have a pantry, and they have a salary each month. We don’t keep the workers’ passport or identity card” (A0305/37).

Thus, from the vantage point of the Chinese industry, the global discussion on ‘good business’ seemed a mere set of new specifications to comply with and took on forms – for many companies that were taken off the lists of suppliers – of factual barriers to trade. Options open to the supplier industry situated at the lower end of the bargaining power spectrum were either to try their best to comply with these specifications (alignment trajectory) or to somehow circumvent (rejection trajectory) the buyers’ scrutiny of compliance. The difference between the two options is that for the captive compliance, though at a low level, the intention to align with the standard is there, while for circumvention, the only goal is to stay in business without committing to the spirit of the standards at all.

Hence, multiple ways of circumvention have been learned in the course of this. “When the international buyers come, the businesses speak some language, when the government comes, they say something else, and then when you come, they will say other things again (laughter)” (P08/32). Even installations in the production plants were sometimes adjusted to satisfy the different buyers’ frequently contradicting requirements. “Some CoC require the racks [for storage; jw] to be in 35cm distance from the floor, some CoC require 40 or 50 cm. What’s the big difference? But if your CoC says 50cm and you have 40, then it means you fail! I have been to a factory where they had adjustable ones, it’s not very obvious but if you look carefully you can notice. If you are here to see 35cm distance from the floor, before you come, the workers can adjust to 35cm. If you are another customer and want to see 45cm, they can adjust to 45cm, before you are here. It’s so ridiculous, but they have to do that, otherwise they lose scores. So they find their ways to cope” (P12/103).

During the introduction phase neither the Chinese government nor the public took much notice of the ‘good business’ discussion that had arrived in China. It predominantly took place at the interfaces with the global value chains in the (mostly light industry) business clusters of the industrialised coastal areas.

### 5.5.1.2 Observation phase: Defense, embrace and combinations thereof

In the second phase of the discourse, the *observation phase*, patterns of ‘defensive embrace’ or of ‘embracing defense’ against the rules, which were brought to Chinese actors through the global value chains, prevail.

In this phase, it became clear to decision-makers in China that the discourse which had been imported would be lasting and would continue to stir discussions in the very sector of the Chinese economy which had been pivotal for the country’s sustained growth – the export sector. The ‘good business’ discussion had been increasingly understood as a political project meant to diminish the economy’s competitiveness by imposing standards that raise production costs (E04/58).

“What we should not forget: we have had 10,000 social audits per year in China for more than ten years now. Would any other country permit outsiders to interfere with its social policies in such a massive way? To come and check whether its companies comply with its legislation, but moreover with things which actually contradict its legislation? (...) If you go to American factories with an army of Indian and Chinese auditors who permanently demand things that potentially contradict American legislation, would Americans allow this?” (P20/59)

Simultaneously, governance patterns in some value chains had changed in a way that increased bargaining power on the Chinese side of trade. Not only did the Chinese export industry want to stay in business with the global buyers, but the global MNEs also wanted to keep a foothold in China for its domestic markets, which rendered many international buyers less inclined to remove orders for reasons of non-compliance with social or environmental standards (P21/19; P27/66). As a result, the bargaining position of Chinese companies improved and “many of the suppliers who were criticised a lot now think: it’s time for me to say ‘No’” (P12/76).

The debate on ‘good business’ had now reached the media, the blogs and the government offices, the latter becoming defensive in its responses, because in contrast to before, “they’re not only talking about how to integrate into the global phenomenon but they’re now doing something to integrate themselves on their own terms” (P21/19). Since the government and parts of the public now observed the issue, patterns of defensive behaviour, embracing the discussion or mixtures of both could be observed.

Along the alignment trajectory, a ‘defensive embrace’ pattern prevailed: Without actual objection to the spirit of the standards, *the manner in which they are conveyed* is being openly rejected. This can take the form of repeated calls that international standards must be based on Chinese law (E20/23). Alternatively, own norm catalogues, albeit containing the same rules as the OECD-based ones, are brought to the discussion. “You just change some clause from the US one to the Chinese one. 50 per cent of the Chinese standards are exactly the same as SA8000, they just re-write and re-structure some elements” (P08/78). In effect, the norms are aligning with the OECD ones without seeming to, as the proponents of the Chinese standards emphasise the *variation* from the OECD-based standards in the public discussions.

Along the rejection trajectory, an ‘embracing defense’ pattern can be observed: Without commitment to the spirit of the norms, tools and instruments of the OECD discussion are publicly embraced.

“I think the Olympics are a classic example of this: The International Olympic Committee (IOC) can delude itself that the Chinese have said: give us the Olympics and we will deal with human rights issues, and never for one moment truly believing that first, they would ever do that and second, they would ever be called on; that the IOC would ever have the guts to say: hey, you said you will do this and you didn’t” (P18/21).

“These are things that people can commit to without committing to. It’s like China and the UN Global Compact. You can say yes to it, you can say we agree with it, you can say this is a good thing, you can say that Chinese companies should think about signing on or understand it or implement it. And you can have all the publicity and all the meetings. But nothing happens, because at heart, these things are quite incompatible with the way your business is done. And without generalising too much about Chinese politics and Chinese officials (I think there are some exceptions to this) the Chinese government officials have worked out very clearly how to demonstrate good faith – without good faith” (P18/16-20).

In the aftermath of the UN Global Compact China summit in December 2005, “the Global Compact was successful in terms of hundreds of Chinese companies signing up to – because it is so simple. The other stuff is so detailed... but I don’t think anyone is taking this seriously” (P03/30).<sup>131</sup>

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131 In January 2008, 394 Chinese companies were again removed from the UN Global Compact listing for being ‘inactive’; online: <http://www.chinacsr.com/en/2008/02/13/2090-chinese-companies-removed-from-united-nations-global-compact-list> (accessed 27 Nov. 2009).

The ‘embracing defense’ behavior is the further development of circumvention along the rejection trajectory, inasmuch as the spirit of the standards is not committed to. However now, the language of the standards is being used. “Every big business, including Foxconn, studies such kind of standards. They actually use, they borrow a lot of language from those standards. Now the PR guys know how to speak. Sinopec or other oil companies, they just learn how to speak but they don’t care about the standard itself” (P08/31-32).

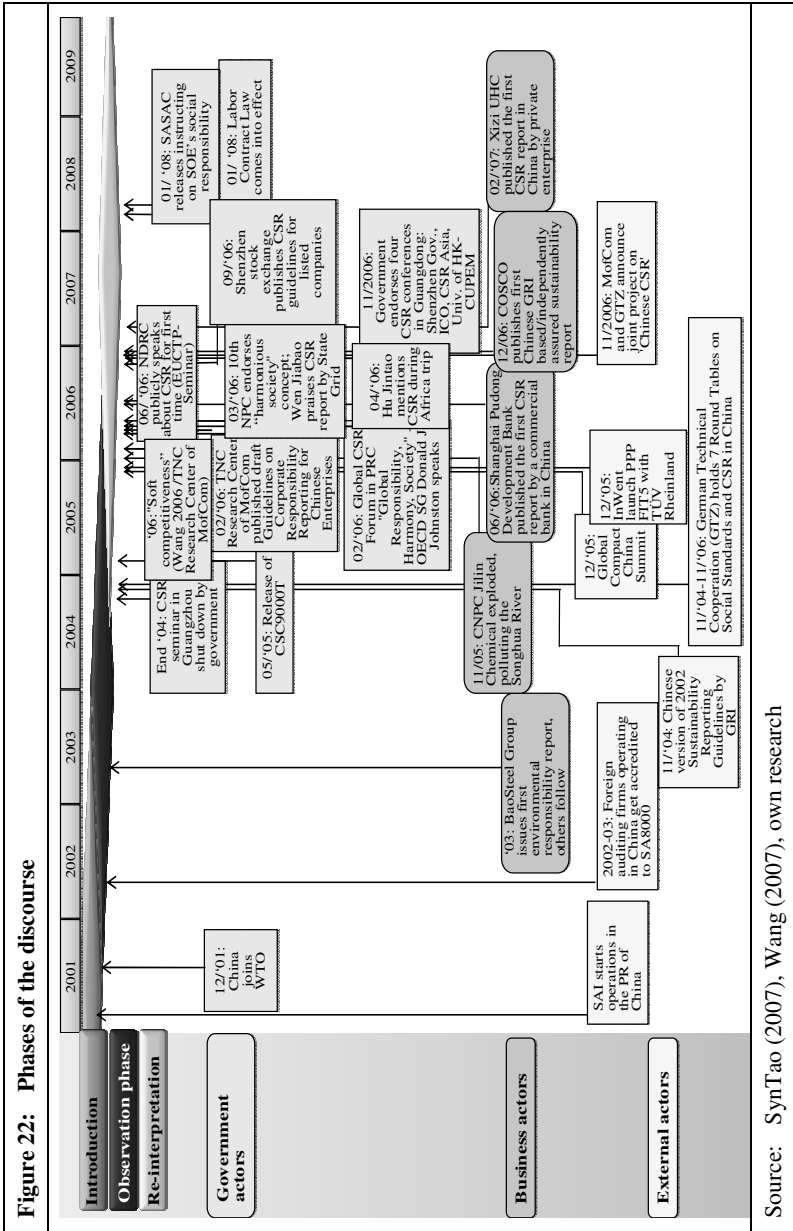
And whereas the private businesses on the rejection trajectory apply the language in order to satisfy the demands for rethorics in the global value chains, the SOEs, in a quite similar fashion, seek to satisfy the newly awakened interest of the Chinese government in the ‘good business’ discussion. “I don’t think a lot of SOE people you meet think it is necessary for them to learn this. Because it is not them who want to learn, the Chinese government actually forces them to learn. The Chinese government thinks: if you want to do business abroad, in America, you have to know CSR” (P08/16).

### 5.5.1.3 Re-interpretation phase: ‘harmonious business’

In the third phase of the discourse, the *re-interpretation phase*, patterns of consent with or rejection of the rules which were brought to Chinese actors through the global value chains prevail.

The most visible dynamic along the alignment trajectory in this phase is the deliberate entry into the ‘good business’ discussion in the course of enacting the governments ‘harmonious society’ agenda. Ever since these new policies have been made public in 2005/2006, the attitudes of many Chinese actors in the discussion on ‘good business’ turned around completely. As can be seen in figure 22, in this phase of the process, government actors now begin to enact the policies that had been incubated in the preceding phases.

“Two years ago [November 2004; jw], I was invited to a CSR seminar in Guangzhou which, the night before, the government shut down. I got a call at midnight saying it’s off. (...) Last weekend, so two years later, I go to an event where the mayor of Shenzhen stands up and says: CSR is important. Business has got to get with the programme. You’ve got the National People’s Congress, the Vice-Director of the Legal Committee of the National





Peoples' Congress – a very senior guy, vice-directors of state administrations for work safety, Ministry of Labour and Social Security and the All-China Federation of Trade Unions (ACFTU) all getting up and parroting the same thing. Very boring speeches, but what's important is that these guys are getting up endorsing Corporate Social Responsibility. In two years it's come from shutting down a little CSR thing to now a huge conference in the biggest government five-star hotel in Shenzhen. The mayor of Shenzhen is a pretty heavy hitter in China. This is the richest city in China, it's the city where the big experiments take place. This is another experiment and there's complete endorsement" (E04/74 f.).

Subsequent to the official endorsement, numerous related initiatives, workshops, publications, good company listings etc mushroomed all over (see fig. 22). At the climax of this phase in 2006, a new book on CSR was published in China every month (N04/26). In the course of this, the former defensive embrace opened up into a full embrace of the 'good business' agenda, albeit re-interpreted and tightly steered by the Chinese government.<sup>132</sup>

"This has been the move in the last couple of years: take CSR! Now it's going to be ours. It's not going to look much different. But the Chinese government wants it to be in Chinese hands. It might end up looking exactly the same, and when you look at those national draft standards on CSR, it is like a hit list of 15 to 20 areas that any company would be doing in order to be a good company: Governance issues, advertising issues, tax, compliance with the law, environmental, charitable issues – a checklist of CSR, essentially. And there's nothing entirely different in there. But the government has written it" (E04/69).

Against this activity, one could wonder what possible function the 'good business' discourse – albeit re-interpreted in terms of the stability-charged 'harmonious society' programme – could potentially fulfill for the Chinese government? Why does the government not simply enforce the laws, since low law enforcement in China – particularly with regard to social standards – has been the starting point of the imported 'good business' discussion in first place (see 3.1.1.1; annex 4)?

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132 According to Yin Gefei (P14), Vice President, China WTO Tribune, MofCom (15 November, 2006, 7th GTZ Roundtable on Social Standards and CSR, Beijing)

“What they’re doing is to put the onus on business. They had the laws, but no-one went around telling the businesses you have to obey the laws. What CSR is able to do is to take this global concept and say to business: get with the programme! If you’re going to be competitive off-shore, get with the programme! If you’re exporting, you’re already doing it, but if you’re a big Chinese company and you’re listing off-shore and you’re working off-shore and you’re investing off-shore, get with the programme! And if you’re a big Chinese company selling products in the market, consumers are on your case, so get with the programme” (E04/79).

But there is also the opposite trajectory: with increasing amounts of bargaining power in the markets and along with more frequent exposure to failure or hypocrisy of foreign CSR programmes, increasingly self-confident Chinese actors openly reject the OECD actor-led discourses. A very common argument here is that the West purposely overstates the political and economic weight of China in order to enforce unwarranted claims (P13/36). “I think the outsiders, if they talk about China, they just talk of the budget of national defense, the GDP or how much foreign reserves we have. This is not the whole picture” (A0102/14). “In the foreign media, China is very often exposed as an economic giant in the world. Actually, especially if you look at the per capita GDP, it’s very very small” (P16/31). Notwithstanding a certain propensity to understate China’s size, however, attitudes on conducting discussions at eye-level are urgently expected (P20/79) and the absence thereof eventually results in the rejection of either form and content of the discussions – as will be portrayed in the reception process of the SA8000 standard.<sup>133</sup>

“If you look at it symbolically, it is indeed colonial affectation: ‘we come and show you how to do it’. And it is also perceived like this (P20/38). And sometimes this leads to rather funny reactions. For instance banned azoic dyes: the threshold value in the EU is 30ppm. The Chinese turn this into 20ppm for their threshold, which, from an analytical perspective, makes no difference. But if the container with clothes from abroad arrives, spot checks are being made and when something is being found, the whole container will be blocked. There is lots of activism around this but the theme is: they finally want to be perceived as not always the workshop of the world but as equal partners!” (P20/82)

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133 Colloquial Chinese has a common expression to repel unwelcomed criticism: 谁叫你过来? (shéi jiào nǐ guo lái), literally meaning ‘who called you to come here’ or ‘who asked you to come here and complain?’

In the following analysis of the reception of SA8000 in China, both patterns of alignment and rejection are considered relevant process mechanisms. The three identified phases thereby frame the observations. As is seen, on the side of the Chinese actors defensive and passive attitudes prevail in the introduction and observation phases. In the re-interpretation phase, however, the intensity of activity suddenly rises conspicuously (see fig 22). This suggests that the policies that are enacted in this phase are silently incubated during the two previous (seemingly) passive phases. Interaction between the parties and the exchange of images and symbols in these earlier phases arguably shapes the policies that are enacted in the later phases.

### 5.5.2 The reception of SA8000 in China

SA8000 is an auditable standard for a third party verification system concentrating on labour and safety issues in the global value chains. The standard follows the logic of continuous improvement of ISO process standards. It has been formed as a result of a multi-stakeholder process organised by the US-based NGO Social Accountability International (SAI, formerly named Council on Economic Priorities Accreditation Agency), and was first published in 1997. As SA8000 has been the first verifiable standard that matched the ‘good business’ discussion in the 1990s, it had been widely discussed among OECD-based businesses that experienced problems with de-legitimising potential as their value chains globalised (see chapter 3.1.1.2).

SAI started its China programme at the end of the 1990s, and from the very beginning of the discussion on ‘good business’ in China, SA8000 was part of it and its tangible representation. Even today, “a lot of factories still think CSR *is* SA8000. This is something which is a little bit more concrete” (P22/45).

Therefore, the reception process of SA8000 serves as a manifest example of the interaction of the OECD-led discourse with the Chinese discourse – the independent variable impacting on (O’) – within which the protruding mechanisms can be observed. The portrayal of this process is structured along the distinct phases of the discussion which have been sketched in the previous chapter.

### 5.5.2.1 Introduction phase

“SA8000 came in a bit like through a hidden door, it suddenly appeared and there were lots of discussions about it and lots of negative reactions to it. (...) People weren't happy with it but it somehow looked like this was the standard, like it was going to stay, it was going to be important and people needed to be understanding” (P09/54).

In line with the actors' overall attitudes toward the discussion during the introduction phase, SA8000 had been perceived as a western confrontation which was detrimental to the Chinese economy. “When SA8000 was released in '97, the first response in China was: this is going to increase our costs and therefore it's a trade barrier. It's like a quota. And for some people this was interpreted as being a plot. This is a deliberate strategy by foreign, anti-Chinese forces to diminish the development of China by increasing its costs and making it less competitive” (P18/36).

“At that time, there has been no-one to explain what CSR means! So when we first heard CSR, there was a question mark there. The buying groups just went to the factory and said: whether you do this or not, you can get some scores or you will lose some scores. So depending on how much scores you have, you can get the orders. So a lot of people thought of CSR as a new trade barrier!” (P12/13)

Martin Ma, China Director of SAI since 2001, and thus a central figure in the introduction process, recalls that “in the past – SA8000, that was a real western concept – so this indeed gave me a hard time to sell it” (P23/11). The captive suppliers in the Chinese light industry, particularly the textile industry that was among the first to be confronted with it, did not think of SA8000 as having a positive impact on the factories, but merely as a protection of the buyers' interests by avoiding risks to their image (P12/13).

As a consequence, various circumvention mechanisms induced undesirable effects such as corruption, deceit, double book-keeping etc (P19/162). Chinese auditors, who visited local companies on behalf of international buyers and who audited thoroughly, were sometimes challenged by their compatriot factory owners: “By the way, which side are you on?” (N01/166)

Hence, from the very beginning, even though only very few companies in selective sectors of the Chinese economy were involved, this private sector-driven standard had been perceived as a political project inflicted on China by the OECD world.

### 5.5.2.2 Observation phase

During the observation phase, Ma found himself in the middle of a heated discussion on SA8000. “In 2003, 2004, people started to talk about this. It’s not like SA8000 initiated this kind of debate, really, things just happened” (P23/75). “We had this rumour spread by someone – I did not do it – that without SA8000 nobody can export! (...) But what I had to do is running through government departments – Ministry of Commerce, Ministry of Labour, all the different ministries – (...) to explain two things: ‘1. SA8000 is a private standard, it’s not supported by the US government. 2. I didn’t start the rumour.’ But that’s an interesting issue: I think the message really was sent by some of the auditing firms, when they were trying to sell their services.”

Whether this was the case or not, it was in fact around that time that some of the big certification firms in China got accredited to SA8000, while at the same time worrying about the viability of this investment.<sup>134</sup>

The rumour, however, was immediately responded to by government authorities, notably the Shenzhen municipal government.

In early 2004, the WTO-Affairs Center and the Bureau of Foreign Trade and Economic Cooperation (Boftec) of Shenzhen announced to the business community a seminar on SA8000 in order to prepare businesses to the alleged new regulation:

*“After entering the WTO, China has been confronted with ever more trade frictions. Most recently, SA8000 appeared as a new technical barrier to trade, coming as supplementary condition to orders of many international companies. It is reckoned that SA8000 will be mandatory in some European and American countries, presumably by 1 May. Whenever a factory does not pass or violates SA8000, orders could be cancelled or revoked”* (Boftec 2004; unofficial translation).

Ma: “So you can say it still is SAI’s responsibility to tell the [accredited certification firms; jw] what they can and cannot tell. So we did a poor job there. But the consequence was: there was so much discussion revolving

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134 During a research trip in February 2003, a representative of a certification firm (P29) shared his doubts with the author whether the SA8000 accreditation would ever generate noteworthy business for them.

around SA8000 that it alarmed the central government, the Prime Minister even assigned this kind of task to some government agencies – the MofCom, the Ministry of Labour, the employers' association and the national accreditation agency – just to study what this thing is! So this created a debate: if you check on the Chinese web portal of Yahoo or Google, you have got half a million hits for SA8000" (P23/77).

Sherin Lin organised the Shenzhen government's seminar on 2 April, 2004 on behalf of a German certification firm, which had already been invited by the municipality for consultations on SA8000 before. "So the rumour was in the newspaper not only in Shenzhen but nation-wide. And then there was the discussion in April 2004: oh, what happens in May? It is effective from 1 May, there will be a big impact on exports. (...) We supported the government with a report and a seminar on SA8000. A lot of factories joined, I think an audience of 500 showed up including big companies like Foxconn" (P22/29). This government-driven seminar on SA8000 in China (P01/13) was repeated for local governments in different provinces (P22/38), each time in order to fight the rumours by explaining that all requirements in SA8000 did not come from the governments but from private business partners (P01/29).

The seminars made a big difference in the domestic discussion, as they raised awareness of the standard among companies (P22/38) but also among the wider public through newspaper articles and TV coverage (P01/23). In the winter of 2004, a TV programme featured a heated discussion between a proponent and an opponent of SA8000. However, after clearing the rumour, the government's attitude towards SA8000 returned to its previous passive and defensive state: After the seminars, the government (MofCom) announced in 2005, that it did 'not encourage' SA8000 anymore. "In my opinion, the government did not want to be embarrassed by foreign companies. Consequently, only 9 companies in China have been accredited to sell SA8000; all are non-Chinese" (P01/33).

Simultaneously, the Certification and Accreditation Administration of the People's Republic of China (CNCA), a government body which supervises standards accreditation in China, and which therefore is the approving authority for SA8000 certification, took on an ambivalent, *defensive embrace* stance towards the issue. The CNCA does not publicly endorse SA8000, but it does not explicitly reject it either (P23/137). "They do allow people to do the certification and CNCA has to be notified if they do but it's still not registered. So, technically speaking, 'you are not allowed to do it but if you do and tell

us about it then it's kind of OK” (P42/62). Another practitioner says: “Yes, actually they never denied SA8000, they always recognised this. You just need to go through a more complicated procedure” (P22/75).

At shop-floor level, the pattern of embracing defense prevailed. Many companies did not understand why SA8000 should be important but still followed it, simply because the buyers demand it (P10/57). And then “the problem with all sorts of these standards is that they become devalued. (...) What they say regularly about SA8000: they just pay the guy and that's it” (P72/70). The low commitment to the content of the standards and CoC was further enforced by double-faced actions of the buyers: “Even now, if you go to the big retailer or big brands, you will find that the CSR people and the purchasers don't speak the same language. The CSR people put CSR first. The purchasers always concentrate on price, price, price. So sometimes, they go to factories to say: OK, you can produce garment for us, but you need to pass through this CoC; you just check all the boxes. Find a way to cope with it, I'll give you the orders” (P12/69, s. also P18/144).

Additionally, many suppliers have experienced that non-compliance actually does *not* result in to cancellation of orders. “So for some factories they learned: OK, it's very easy! And they didn't take the CoC very serious, they gradually learned some ‘short-cuts’” (P12/79). However, the double-faced communication and the absence of sanctions for non-compliance on behalf of the buyers effectively extended the degree of freedom of suppliers and improved their bargaining position towards the buyer: the Chinese companies learned that either buyers' social and environmental criteria were not decisive (as they continued to order despite of non-compliance to required standards), or else, that the *Chinese standard of practice* had entered into the *de facto* accepted standards in global value chains.

As a consequence, SA8000 suffered the loss of the amounts of attention it had attracted during the height of the observation phase (P09/64, 67). But the discussion itself remained, as many other programmes for implementing social and environmental standards appeared at the Chinese end of the global value chains (P01/42). “The businesses understood that this wasn't going away, that the pressure was increasing and SA8000 was just one reflection of the increasing pressure, and there would be many other things going to happen here in China: the Fair Labour Association (FLA), the Worldwide Responsible Apparel Production (WRAP), the Ethical Trading Initiative (ETI) and so forth” (P18/36).

### 5.5.2.3 Re-interpretation phase

During the ensuing re-interpretation phase, SA8000 became “*classic reading to refer to*” (P08/76) when designing instruments that were responsive to the distinct Chinese role models which began to take up room in the endogenous discussion on ‘good business’. “If you look at 2005, China’s economic development really reached to such a level that domestic stakeholders felt it’s about time to talk about this harmony issue, the people issue, the migrant workers issue and environmental protection. Their basic message was: we have to take more care of the people. Economic development is one thing, but there is also human development. Then some of the stakeholders saw SA8000, which was considered kind of an international, widely recognised standard. So some of the stakeholders borrowed the concept to improve and strengthen their own argument” (P23/75).

As the textile industry had been most frequently exposed to the OECD discussion and most frequently confronted with SA8000, the discussions on setting up own instruments started there. The China National Textile and Apparel Council (CNTAC), encouraged by the NDRC and other ministries (P2502/88), were the main actor in designing China Social Compliance 9000 for Textile & Apparel Industry (CSC9000T) – “a Social Responsibility Management System based on China’s laws and regulations, international conventions and standards, and China’s particular situations” (CNTAC 2005, 1).

Yan Yan, the Vice Director in CNTAC’s Office for Social Responsibility, recalls the initial motivations behind setting up CSC9000T. “When we first noticed it, we studied CSR, we studied the questionnaires and then we saw that this is not a new trade barrier but a challenge to our management. (...) Then, CNTAC started this issue how to make CSR to be the real CSR, not only the [buyers’; jw] annual checking” (P12/15).

For CNTAC, “*real CSR*” first and foremost meant a situation where the Chinese industry would be acting out of its own commitment and would not be coerced by incomprehensible, sometimes hypocritical requirements from foreign companies. “So that was a very confusing period. CSR, CoC, and some certifications, and some checking a lot of activities. The [Chinese suppliers; jw] were forced to do something just to follow this trend. But they didn’t know what the essence of CSR really is” (P12/15).

In order to arrive at such a state of comprehension and acceptance, an instrument had to be found which re-interpreted the discussion on ‘good



business' in terms that met the increasingly self-assured Chinese businesses at eye-level. "So after one and a half year's studying, research and a lot of talks with the brand names, the ILO, UNIDO and the EU, after a lot of communication and research trips, we thought that to the textile and garment industry in China, CSR is not only a new challenge but also a new opportunity! A new opportunity for us to improve our management: we call it 'soft management' [see Wang Zhile 'soft competitiveness' concept in 5.2.1.3]. Hard management concerns the production side but soft management is awareness and management systems. Then we started our CSC9000T" (P12/15).

Thus, in an attempt to change the undesired state of a foreign actor-imposed discussion in its industry, the CNTAC re-interpreted the discussion along the lines of endogenous concepts through its "*copycat of SA8000*" (P08/31). And the fact that CSC9000T essentially covers the same requirements as SA8000 – with the notable exception of freedom of association – shows that in the re-interpretation phase, the Chinese actors had left behind the circumvention and embracing defense patterns of behaviour. They now deliberately rejected a foreign concept, which, in essence, would have been more or less agreeable – only the circumstances of its proliferation were not.

CSC9000T is a deliberate alternative to SA8000 and other OECD-led standard initiatives (P20/57) that emancipates itself from foreign buyers' pressure (P12/83) and puts in its place the will for self-determination of the Chinese actors. As Yan Yan argues, "we pay a lot of attention to SA8000, but they're not localised. Our system CSC9000T is based on the local conditions, local people, local laws. But SA8000, they are trying to do something globally! But different countries have different laws and different ways, so we respect the local laws. We don't tell the factories: you are 100 per cent perfect or not. What we're aiming at is: you need to concentrate on the self-discipline and the continuous development" (P12/29).

The establishment of CSC9000T, furthermore, is an act of assuming interpretive authority over the 'good business' discussion, as Martin Ma of SAI explains. "The essence is really: If you look at SA8000, the Chinese general public, the government, some of the leading business players, academics accept everything except the freedom of association issue. So the transformation is: The Chinese players want to sit in the driver's seat. 'If CSR is a must, we have to do it the Chinese way'. That explains why we had CSC9000T, which is a good thing for me" (P23/87).

In sum, the process of the reception of SA8000 and directly related to this the establishment of CSC9000T conforms to the ‘rejection trajectory’ in figure 21: With increasing bargaining power, the behaviour towards the foreign standard changed from captive compliance and circumvention via embracing defenses to open rejection. In the first stage, in order to stay in business, the companies found ways to pass (captive compliance) or to deceive (circumvention) the buyers’ compliance audits. In the second stage, not only rumours on the decisiveness of compliance with SA8000 for the suppliers’ exportability were cleared up, but the actual experience of the suppliers demonstrated the same fact: Buyers could not afford to sanction non-compliance by withdrawing orders in a stringent manner. As a consequence, suppliers furthermore could ‘commit without committing’. In the last phase, finally, the need for even the latter pattern of behaviour fell away, as SA8000 largely dropped from the radar (P09/64) and the deliberate alternative concept of CSC9000T could be invoked by suppliers.<sup>135</sup>

### 5.5.3 Future discourse: self-designed rules or innovation on the basis of the dominant ones?

#### 5.5.3.1 Resolving the riddle: emancipation from a dominant interpretation of ‘good business’

The process of the reception of SA8000 in China shows how with an increase of domestic actors’ bargaining power, an OECD-led standard first roused attention, then was disputed or rejected, and finally adapted and reformulated within the Chinese domestic discussion. This pattern is indeed not a singular one, but can be observed for other standard development processes in China, as the following example for assurance of CSR reports shows:

“[German Technical Cooperation] did a workshop on assurance of CSR reports. The AA1000 [issued by the UK-based organisation Accountability; jw] is the main assurance standard that is used. The Chinese Enterprise Confederation (CEC) was very interested and said the assurance issue is something that many of their member companies are asking them about.

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135 Please note the ideal-typical characteristic of the statements and note that the last phase already includes an anticipation of future developments. Naturally, many suppliers still have to comply with SA8000 in order to make sure they do not lose orders.

‘For the time being, AA1000 is the standard. This is the one that everyone’s using so we are also interested. But ultimately, we don’t want to be relying on AA1000 for assurance and China should have its own standard, that’s what we would hope.’ This was the representative of a large enterprise association and the message was ‘OK, since it’s here, we do it. But one day we want to see a Chinese equivalent’” (P09/39).<sup>136</sup>

By following these patterns of behaviour using the historical process perspective, the contradictory results of earlier surveys (empirical module 1 and 2) can be resolved.

Clearly, the alignment to global standards is often acknowledged as an objective need, as through this costly friction in transactions can be eliminated. Businesses are even afraid of situations where governmental authorities could introduce standards that are conflicting with ones of the status quo. “I had a discussion with someone from COSCO who’s in charge of their CSR report. Right now they are using the GRI G3 guidelines. She was referring to that SASAC released this instruction saying companies should do CSR reports [see 4.2.1.1; 5.2.2.1]. And her concern was: If SASAC comes along and issues a standard on how to report *which is different from the G3*, that’s going to be a huge problem. Take on this huge company with all those sub-companies – it’s a nightmare. Because they had already invested so much money, so much effort had to go into this. And if the Chinese government comes up with a different standard, then you have to do two reports! Of course, this would be a huge frustration” (P09/41).

In informal discussions, government officials also confirm the need for alignment to global benchmarks. “We have been discussing this yesterday with our MofCom partners and they say: ‘I used to work in the area of standards development; there is no point in developing something different. If there is an international standard that everyone’s using, why change it?’” (P09/41)

However, besides the acknowledgement of the objective need to align with not only technical and quality-related global standards, but increasingly so

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136 In a similar fashion, it can be observed how production-related EU regulation (e.g. RoHS, REACH or WEEE) is reflected in Chinese regulation. “There is a standard in China which they nickname it the ‘Chinese ROHS’ and it also incorporates a WEEE-kind of element as well. And the Chinese have now come up with a legislation on chemicals similar to REACH in the EU” (P09/48).

with those global standards concerning the social and environmental implications of production, there is nevertheless a significant aspiration to emancipate oneself from foreigners determining the standards to align with. This aspiration becomes more manifest, the more clearly the overall bargaining position of the Chinese group of actors has improved against the foreign one.

It is rather suggestive to explain rejection patterns with reference to the two-century-long foreign determination of China as a whole in pre-revolutionary times and this “*very painful path*” (A0401/47) is indeed sometimes referenced in the standards discussion. This pattern also reflects the Chinese conception of sovereignty.<sup>137</sup> “China doesn’t like to be told what to do or to follow what other people say. If a Chinese company is going to do something, it’s because: ‘we have our regulation that says what we should do. We should not be doing what other countries say we should do’. And even in the case where they in principle agree with such standards, it’s just the problem that it’s not a Chinese standard” (P09/39). Moreover, there is an increasing number of Chinese self-designed instruments at hand to replace the outside pressure: “The Chinese employers don’t like foreign companies pushing on the labour issue. The new contract law [see 5.2.2.1] already pushes the issue very hard” (P15/41).

As is seen, however, this particular pattern can be a problem for those global players who have already aligned with the international benchmarks. Taking the above example, it now becomes more difficult to suggest to the SASAC to adopt the G3 as a guideline according to which the SOEs should do their reporting: “You can’t just say: you should use the international standards because the Chinese attitude is that you should have your own. So if you suggest that, they say no, no, no, we will make our own standard, even if the reality is that it doesn’t make a lot of sense to do so” (P09/41).

However, as the process described above should have made clear, for exactly these constellations a ‘defensive embrace’ pattern of behaviour provides an effective way out: So even if the objective need to align with

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137 “*Nowadays, when discussing starting points for a Chinese global governance strategy, it is often held that China’s non-interventionism, as opposed to for instance mutual interference or shared sovereignty concepts, is too narrow a definition of sovereignty as to hold sway under globalised conditions*” (Dirk Messner, during presentation China – A New Global Reality at InWEnt, Bonn, 23 January, 2007).

OECD-based standards is obvious, and even if behind closed doors the relevant actors agree to this, *the re-interpretation of the OECD benchmark* can save the emancipative character of the process of alignment. “Yes, we can have our own standard, but we incorporate elements to make sure they’re not conflicting with the international one. Or: we simply label the international one as our own” (P09/41).

In this way, inclinations of both variation *and* alignment co-exist in the same debate or even in the arguments of the same discussant. A dialectic relationship of emancipation from and convergence towards the dominant OECD world interpretation in the discourse on ‘good business’ can be stated, which allows Chinese actors to either commit without really committing to, or to reject without really rejecting the dominant interpretation.

It has been this particular actor disposition, within which SA8000 stimulated the Chinese discussion on ‘good business’ at the turn of the century. “That trigger SA8000, people labeled it in different ways: either as an US government-sponsored project for revolution or as ‘those western governments are trying to curb China’s development’. That’s all the negative commons. On the positive side we do have all those Chinese players, even some of the government agencies, particularly in Beijing, who say: we have to really look at the good point contained in SA8000. It’s not a western or eastern issue, but China does need to consider these things” (P23/84).

### 5.5.3.2 What is the impact?

The history of the reception of the SA8000 standard in China and the establishment of CSC9000T displays dynamics, which conform rather well to one of the trajectories that have been outlined based on the the refined hypothesis one (see fig. 21 in 5.4) – the *rejection* trajectory. The thus identified mechanisms at work – the various patterns of behaviour at play in the interaction between the (A) and (O) types of business legitimacy – hint at effects on the future global definition of ‘good business’. These features finally inform statements that respond to the impact assumption.

Hence, what can be said about the impact that the interaction between (A) and (O) exerts on the development of (O; =O’)? And how significant is this impact? Several aspects are relevant:

First, the replacement in China of an OECD-based standard by a Chinese functional equivalent has repercussions on the global discussion. It marks

the limit of dissemination that benchmarks from the OECD world discussion have reached in the emerging world. Uniform and unidirectional processes of proliferation of standards from industrialised to industrialising countries may no longer be easily referred to, not in the global discussion on 'good business', and perhaps not in other areas of global governance either. And even when remaining within the narrow confines of the 'good business' discussion, which in many ways has so far only scratched the surface of a limited number of value chains in global production,<sup>138</sup> all future dialogue processes (e.g. the ongoing roundtable on responsible soy production, P23/23) have to account for these mechanisms that showcase how the Asian Driver China *impacts the essence of agreements in the course of entering into them.*

As has been seen, the mechanisms through which the dissemination of this particular standard has been repelled in China, arrayed along a chain from captive compliance and circumvention via defenses (which, however, embraced the rules on the surface), to an open rejection by reference to own alternative concepts. These mechanisms were embedded in phases of an overall domestic discourse which sidelined the development of instruments by providing role models (e.g. 'harmonious society', 'technological development') and business concepts (e.g. 'soft competitiveness').

Second, concrete impact is thus exerted on the wording of the global discussion. When SA8000 was revised in 2001, the incompatibility of some of its articles with the Chinese law had already been in the focus of the discussions. In consequence, the revision included provisions for "*those situations in which the right to freedom of association and collective bargaining are restricted under law*" (SAI 2008, 7; P09/55).<sup>139</sup> This changed the OECD world standard inasmuch as the "*right to form and join trade unions and to bargain collectively*" (SAI 2008, 7), while having been framed as

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138 "SA8000 is a point of fabrication tool. But the point of fabrication is a tiny percentage of the entire theme that we're looking at. On either side of the point of fabrication – laundries, printing mills, spinning and weaving, cotton fields, pesticides, fields and tractors, parting cotton, water used for irrigation, design, purchasing – there is nothing. So everything is fixated on this little bit. And what's more: the fixation on this little bit has been diluted in China" (P18/144).

139 These provisions shall "*facilitate parallel means of independent and free association and bargaining for all such personnel*" (SAI 2008, 7).

universally valid before, through this change in the wording a backdoor for the particular case of China has been inserted.

Third, China also impacts the spirit of the OECD standards, which can be pointed out with reference to the European Foreign Trade Association's (FTA) social standard. The Business Social Compliance Initiative (BSCI) is the European retail business-driven platform for the improvement of social compliance in its members' global supply chains. By and large, the BSCI code of conduct (BSCI 2006) is based on SA8000. It includes the same provision for "situations or countries in which the rights regarding freedom of association and collective bargaining are restricted by law" (BSCI 2006:1). However, even after many years of engagement, a very significant share of the audited Chinese suppliers to the BSCI's European members are still found to exhibit "*deviations in the majority of requirements or in crucial points*" of the standard (BSCI 2007, 24). In 2005, 80 per cent of the initial audits came up 'non-compliant' (250 out of 313, BSCI 2006, 24), in 2006 76 per cent (522 out of 684, BSCI 2007, 24), in 2007 80 per cent (1387 out of 1732; BSCI 2008, 23) and in 2008 78 per cent (3785 initial audits; BSCI 2009, 23). In 2008, 47 per cent of the companies audited again were still non-compliant (BSCI 2009, 23). It has been mentioned before that the international buyers could not afford to stringently sanction non-compliance to their social standards. However, in the face of these figures of non-compliance, there can hardly be *any talk* of proliferation of this OECD-based standard to China at all. One way to look at this is to conclude that the buyers' 'soft' requirements ultimately are not the decisive ones when awarding sourcing contracts. Another way to look at this, however, suggests that for reasons of increased Chinese bargaining power in the markets and in withstanding the claims of OECD actors, *the existing Chinese practice has found entry into the de-facto accepted standards in global value chains*.

And with prolonged high levels of deviation from any standard, it is generally a matter of time before the standard *itself* is altered. One preliminary indication for this perspective is the fact that FTA signed an agreement with CNTAC for the mutual recognition of the BSCI standard and CSC9000T in China. "So if you're CSC9000T accredited – you don't get certified, but if you've been through the system – then I think you're like 80 per cent to the BSCI. [CNTAC; jw] is trying to get, through that, more buy-in to their standard" (P09/71).

Thus, it can be concluded from the observed process that, indeed, this (rejection-logic) interaction between (A) and (O) exerted impact on the global discussion: The politics of standards proliferation as much as the wording and the spirit of OECD-based standards were altered while interacting in the Chinese discursive and stakeholder environments.

However, the significance of self-designed Chinese rules that resulted from this interaction is still rather limited: "I don't know if there is any international company that would publicly get behind it and say: we do CSC9000T. The trade unions would jump right on them" (P09/72), because the standard does not include stipulations on the freedom of association.<sup>140</sup> So even if CSC9000T creates a lot of attention, it will, because of this omission, not be able to find overwhelming acceptance in the transnational stakeholder environments (P77/28). "The problem is that [CSC9000T; jw] fails in the fact that we are dealing with a global market. OK, you can have the standard and maybe people are even willing to use the standard, but if it doesn't have the international buy-in, then where does it really get you?" (P09/42)

The introduction of this self-designed rule has failed to position itself in the relevant transnational sphere of interaction that the 'good business' discussion belongs to and will therefore remain of limited influence. CSC9000T is a reflex, an internal tool for Chinese producers, but it is not an international standard (P77/23). This shows that Chinese actors are not yet in a position to independently define the rules of conduct beyond domestic spheres of action, (P07/94). Even if they have successfully reclaimed interpretative authority over the Chinese discussion, they have not won over significant parts of the transnational stakeholders who determine the debates in the globalised spheres. This can be referenced with Chinese actors' need to defend themselves in most debates on the rules governing their overseas investments in developing countries, and, as seen with Chalco in chapter 4.2.5, with the adoption of the prevalent rules to govern their investment projects in the OECD world.

However, Chinese actors, and foremost the emerging global players among them, are much more likely to impact the global agendas if they follow the opposite, *alignment* trajectory: As the case of Lenovo (see chapter 4.2.4)

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140 CSC9000T grasps freedom of association as to affiliate all the unions which are present in the company to the official union structure.



illustrates, a full embrace of the global benchmarks in the discussion reduces frictions in the global economy. *Innovation* that is based on this embrace, on improving bargaining positions and the simultaneous build-up of brand capital, however, might impact the future global discussion on ‘good business’ much more significantly than introducing ‘Chinese rules’.

“Like China Mobile: they released the best CSR report from a Chinese company, they clearly get it; they are using an internationally accepted tool, the GRI, G3 indicators, and they report on these indicators with information that is very viable; and it’s been verified. Now here’s a company that does not do this because SASAC says ‘you should do it’; maybe they started off like this. But this company has spent a lot of time looking at what other multinational companies that they believe are competitors do. And they see a value in doing it beyond appeasing the government. So they’re using a rigorous internationally accepted tool and producing a document that could be benchmarked internationally quite well. OK, they’re not Vodaphone, but Vodaphone is the industry leader. They’re better than PCCW in Hong Kong and probably better than some of the American companies” (P18/98).

‘New Thinking’ then impacts on the global discussion, if the practices of the company are agreeable with, and if the communication of these practices enjoys credibility in, the transnational stakeholder constituencies in businesses’ globalised frameworks of action. And credibility, nowadays, can only be secured by instruments that procedurally and ideationally include the transnational stakeholders. “So even if the Chinese came up with CRI – the China Reporting Initiative – a company like China Mobile wouldn’t use it, because where is the credibility? Companies going for the toughest international standards and building up practices to meet these standards – so that’s the future” (P18/100).

### 5.5.3.3 Critical review of the process from the global governance perspective

For the analysis of the observed process, the comprehension of the standards under discussion, and more precisely the lack thereof, took on key significance. In order to lead to satisfactory results, global governance processes need to be based upon true comprehension, mutual understanding and the supportive exchange of benign images (Gu / Humphrey / Mess-

ner 2007, 21) as preconditions. This process, in which a standard regime has been proliferated to Chinese actors through global value chains and their external governance, provides an example for failure to arrive at necessary levels of comprehension. It also provides for examples for results that such lack of comprehension in further global governance processes may bring.

In order to understand where the OECD-based discussion on ‘good business’ came from and why it suddenly confronted the production standards in their industries, Chinese actors would have to have been equipped with the full body of historical experience that gave birth to the discussion, and not just with its condensed manifestation in a code of conduct. As Stephen Frost, an expert and long time observer in the discussion argues,<sup>141</sup> “What was missing in all of this way: nobody actually understood what SA8000 was! What people understood was the document and the requests that companies had to comply with to become SA8000 certified. But they didn’t understand the bigger picture, the context from which that document emerged. Which was the whole, you know: Nike, Adidas, GAP, sweatshops, globalisation, anti-globalisation, the WTO and the WTO precursor, the MAI (see chapter 1.2.2), the Battle of Seattle (see chapter 3.1.1.1) – all of those kinds of things coalescing in the late Nineties. When people got hold of the MAI, there was a huge furor and it had to be scrapped, and what came out of it was public attempts to win over people with the good sides of free trade – things like the World Economic Forum, the UN Global Compact and the OECD guidelines [see chapter 2.1.1]” (P18/36).

The Chinese side, however, lacked a true comprehension of this context from which SA8000 had emerged and its significance for OECD stakeholders. Instead, what Chinese actors perceived from a code of conduct that had been amputated from this context, was a confrontation with potentially detrimental economic side effects. “Therefore, you end up getting, even today, very senior Chinese officials like Wang Maolin, the Chairman of the National People’s Congress (NPC’s) committee on law, arguing in public

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141 Stephen Frost is Assistant Professor at the Department of Asian and International Studies at the City University of Hong Kong and co-founder and executive director of the social enterprise CSR Asia. He has focused on issues surrounding supply chains and workplace standards in China since 2000 and therefore, his remarks are given more room in this chapter.

that China must be careful with CSR. The overt message is: ‘What’s appropriate for you, the Americans or the Germans, is not appropriate for us because we are developing. And we will get there in our own good time but in the meantime, don’t ask us to do CSR or OECD Guidelines or SA8000. We’ll get something that’s appropriate’. And that’s why you’ve got CSC9000T” (P18/43).

The discussion arrived at CSC9000T, however, by further transforming SA8000, which had already been divorced from its context when it came to China, into a Chinese management tool. “The context is already kind of lost with SA8000 in China because they had just not made it clear. But at least there is a narrow context: we need to get the certificate; our clients want the certificate, even if we have to cheat. Now you go with CSC9000T. You don’t need to cheat, we don’t need to do anything, we sign up because we get brownie points, the government looks upon us favourably, so we do it” (P18/50).

But now, there is no chance left for Chinese actors to understand the context of a genuine interest in workers’ rights, the abolition of exploitation, and the aspiration of a more just globalisation – aims that drove the US-based NGOs and university students that the initial movement to establish SA8000 consisted of. The mutual comprehension part of this process has been lost in the course of implementing SA8000. “So Chinese companies that are doing CSC9000T are still going to be shocked if they are told by clients from the US or Europe that they perceive labour conditions in China as abhorrent. They will say: ‘What? Where does this animosity come from?’ So you haven’t actually bridged the divide, you just built another lower bridge, further down the river which is easier to cross! There’s no attempt at bringing this conversation from Europe or America into the Chinese context, which is what is desperately needed! (P18/52) So, what we’re trying to do with companies in China is that we are asking them to run before they can even crawl. Crawling, here, is understanding the big picture, but understanding it in a way that makes sense to them” (P18/47).

#### 5.5.3.4 Synopsis

The results of the process analysis show the following: The history of reception of the OECD-based standard SA8000 adheres to a ‘rejection trajectory’ logic, whereby its constituent mechanisms (circumvention, embrac-

ing defense, rejection and introduction of own rules) could be identified to have protruded in the process.

The intriguing paradox which resulted from the contradiction of the results of the empirical modules 1 and 2 – the stress of variation *from* the dominant OECD discourse in the domestic discussion and an obvious alignment *with* OECD types of legitimising business conduct observed for the cases of emerging global players from China – can be resolved when assuming the process perspective. When entering a discourse that is determined by dominant external actors, patterns of collective behaviour that are characterised by ambiguity provide a solution to contradicting forces on the entering party: Whereas an objective need to facilitate economic exchange dictates an alignment pathway, an emancipative defense against the dominant foreign discourse can still be upheld. The desire of regaining interpretive authority over domestic issues can still be pursued, even *while aligning*. One aligns while sending contradictory signals of emancipation.

A significant impact exerted by the Chinese actors on the politics of standard proliferation, but also on the wording and on the spirit of the OECD based standards can be substantiated for the observed rejection-trajectory process. However, it can be reasoned from the observations that embracing global standards and innovating on the basis of them (‘alignment trajectory’) is likely to have more impact on the global discussion than rejecting the dominant rules and introducing self-designed ones. Self-designed rules are more likely to lack the consent and credibility – and therefore the legitimacy – in transnational stakeholder environments in the global spheres of action of the businesses.

In order to bridge gaps, global governance processes need to rely upon true comprehension as a foundation for global bargaining processes. True comprehension is urgently needed, moreover when transgressing the narrow focus of the ‘good business’ discussion and arriving at the pressing global governance imperatives of tackling climate change or resolving investment and trade disputes, economic crises or armed conflicts.

The identification of distinct process phases (see fig. 22) thus suggests that mutual comprehension is best pursued during the introduction and observation phases, which are the ‘incubation phases’ of policies that are enacted in the ensuing re-interpretation phase. The observed process showed that an exchange of malign images [see 6.5.1.1] in the former phases (e.g. the

rumours of compulsory SA8000 certification for all exportable goods from China) made the actors embark on a rejection trajectory pathway in the latter phase.

Ultimately, as a result of the variation assumption having been refined in the course of the research process (see chapter 5.4) and its revision providing the grounds on which to examine the impact assumption, the latter can now be confirmed: The overall results show that through its interaction with the discourse (dt A) and practices (A) in China, the OECD type discussion of legitimising business (O) experiences alterations in its overall politics of proliferation, its wording and its spirit. As a result of Chinese business actors' increased interpretive authority over the debate, the future global discourse on 'good business' includes as a determining element features emanating from the interaction with China. Although, nothing has yet been said about the other Asian Driver: India.

## 6 Conclusions and implications

*“The legitimacy of the market will weaken. The credibility of the US will be damaged. The authority of China will rise. Globalisation itself may founder. This is a time for upheaval”* (Wolf 2009).

When power shifts occur, those losing power in relative terms have incentives to enter cooperative solutions, while those relatively gaining power seek to extend their stake in the governance architecture within which solutions are being concluded.<sup>142</sup> As the above quote of the Financial Times journalist Martin Wolf indicates, the global governance patterns are currently being overhauled. The Asian Drivers are extending their stakes in various global discussions, thereby changing the governance patterns that rule these discussions. As seen in this study, Chinese actors are changing the global *business legitimacy governance*: Some actors innovate based on the the thus-far dominating OECD rules, others introduce re-interpreted or self-designed rules. As the balance of bargaining power shifts, however, Chinese actors' chances of successfully establishing these innovations in the global business legitimacy governance are increasing.

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142 Conf. to Juan Somavia, Director General, International Labour Office ILO, as mentioned at the 12th Annual Conference of the European Association of Development Research and Training Institutes (EADI), Geneva, 24 to 28 June, 2008. See also EADI (2008, 14).

In categories of the realists' school in international relations, emerging powers either enter the established status quo or revise the rules of the system, thereby generating friction, at least, but very likely instability and conflict (Kennedy 1987). The conclusion from this study is that China is a 'revisionist' ascending power, shaking the balance of the status quo. In the past, "*China had a habit of changing its conquerors much more than it was changed by them*" (Kennedy 1987, 6). This is also true for the 'good business' discourse that had been imposed on China by external forces at first. Now, as China itself 'conquers' significant parts of the discussion, its impact has to be anticipated as *systemic*. Is therefore the realists' prediction of conflict inescapable?

In the global governance view, there is no such determination. As the relative winners and the relative losers of the current power shifts are bound to each other by interdependent transnational exchange, and as institutionalised practice with the potential of closing the 'anomic' gaps evolves from repeated ('habitualised') exchange, power shifts may indeed take different turns from those predicted by the realists' theoretical dichotomy. But which ones? Given that the actors are interdependent, can the global business legitimacy governance absorb the claims of the ascending powers to co-design rules in complementary, non-conflictive ways? May even new synergies result from this systems revision? The answers to these questions need to be found in the political realm: "*There is a cross-over point as the balance of power changes, which may or may not result in effective collaboration*" (EADI 2008, 14). It *may* only then, if the *political will* to enter cooperative solutions is being exercised. And, as has been stated above, entering cooperative solutions is the *call of the relative losers*.

The results of this study imply how in this particular part of the global governance discourse, effective collaboration may be rendered more likely. This chapter concludes that the global 'good business' discussion needs to avoid 'rejection trajectories' logics, while seeking 'alignment trajectories' logics at this particular cross-over point of global power shifts. A desirable global governance result would be a situation in which politically supporting 'self-healing' of the anomic gaps that have been opened-up by the advanced social division of labour in globalisation would seem possible. The undesirable alternative, as is also concluded, is the perpetuation of the crisis of business legitimacy in a governance framework that is characterised by multi-polarity.

This study is an attempt of thrusting inroads into the hitherto scarcely treated terrain of the research of Asian Drivers joining agreements in global governance. The Asian Drivers' ascendancy has just started and any amount of research can still only display a preliminary portrait of a more comprehensive wave of global change. But even while the Asian Drivers are still testing their roles in the global governance architecture, this research identified ideal-typical patterns of Asian Drivers' behaviour when joining global arrangements of rule-making. As will be seen in this chapter, these patterns can be rediscovered beyond the narrower scope of this research.

This chapter first summarises the results of this study (chapter 6.1). Chapter 6.2 reviews the concepts that have been developed. Chapter 6.3 reviews the theoretical framework in order to prepare the grounds for its application in further research. From this exercise, finally, recommendations for the global governance thinking and policy debates will be made in chapters 6.4 and 6.5, respectively.

## 6.1 Synopsis of empirical results

In line with the overall design of the study, the synopsis of conclusions is structured according to the study's guiding questions: on *variation* between the Asian Drivers' and the OECD actors' patterns of business legitimisation (6.1.1); and on *impact* exerted by the former on the latter (6.1.2).

### 6.1.1 Simultaneous variation between and alignment of the Asian Drivers' and the OECD world's business legitimisation practice

Can an *Asian Drivers' version* of legitimising business be identified against the ideal-typical OECD benchmark? The empirical research showed that yes, a distinct type of 'good' business can be observed in China. It shows features of 'harmony', 'soft competitiveness' and further characteristics that are inferable from genuinely Chinese cultural and historical elements. Furthermore, this type responds to recent institutional innovation (in regulation as much as in institutional arrangements) of the political economy and the society at large (regarding domestic non-market stakeholders). This type can be clearly identified at the discourse-level observations (see chapter 5.2).

At the level of businesses’ operational realities, however, this type is *found to be less clearly action-guiding*. The survey on Asian Business Drivers reveals that partly on the one hand, the policies of the Asian Business Drivers indeed respond to the *distinctly Chinese* stakeholder environments. Policies display emphases on nationally-confined philanthropic activities acknowledging rather narrow ranges of transnational stakeholders. In many cases, the range of acknowledged stakeholders is clearly dominated by Chinese governmental ones. Including predominantly national stakeholders in ideational and procedural ways has been observed as a necessary complementary practice that even the most globalised Asian Business Drivers (such as Lenovo) or the Taiwanese-invested ones (such as Foxconn) cannot afford to neglect. Furthermore, building up an attractive image among domestic consumers, savers, investors and, again, governmental actors, is deemed necessary. It is for this reason when Chinese participants in global discussions frequently find that the OECD-based ‘good business’ discussion “does not fit our rules”, “is not localised”, or that “China works differently” (e.g. P12/30). However, these are exceptions – albeit important ones.

On the other hand, the overwhelming part of the observations showed patterns of *alignment with OECD businesses’ practices of legitimising business*. The empirical role model and output legitimacy-aspects of the Asian Business Drivers’ legitimacy efforts position themselves far closer to the OECD benchmarks than the domestic discourse would make the observer believe. Accounting for its global sphere of action, e.g. the State-owned Multinational Enterprises (SOMNEs) see an urgent need to align their CSR reports with the internationally agreed GRI standards (s. chapter 5.5.3.1). By this, they make sure the social and environmental implications of its global transactions are reported in ways that find resonance among their transnational stakeholder constituencies, thus enhancing credibility and easing transactions. Similar patterns have not only been observed across the sample of Asian Business Drivers (chapter 5.4), but also confirmed by experts in the field.

The overall conclusion for *variation* is thus: There is a distinct Asian Drivers’ version of ‘good business’ (dt A) that is, however, not guiding the actions of businesses in comprehensive ways. More often than not, the Asian Business Drivers’ legitimacy action – the ideal-type (A) – aligns with the OECD benchmark (O).



### 6.1.2 Impact of the rise of the Asian Drivers on the global ‘good business’ debate

Despite its limited authority over businesses’ actions, (dt A) takes up considerable room at the discourse level. The global discourse on business legitimacy faces the advent of the new variety (dt A), featuring distinctly Chinese role models and responding to distinctly Chinese stakeholder environments.

Moreover, as has been seen, this process is being reinforced by global change. The empirical findings suggest that the global ‘good business’ discourse *becomes more Chinese* as Chinese actors’ bargaining power increases. Increasingly often, the features of (dt A) concepts prevail in the governance discussions within and around the global value chains, thereby effectively enhancing the Asian Business Drivers’ *interpretative authority* over the debate.

The process, during which the Asian Business Drivers’ actors acquire (and are ascribed) additional interpretative authority, can be observed in three ideal-typical phases (see chapter 5.5.1): the introduction phase, in which new rules are introduced to the domestic discourse; the observation phase, in which defensive and proactive responses to the external rules shape the domestic discussions and proto-policies; and the engagement or re-interpretation phase, during which the actors assume active roles in the rule-making arena. Thereby, the distinction of phases of the ‘good business’ discourse matches similar observations in other rule setting regimes, such as for instance the WTO. *“China has moved from ‘learning by watching’, where it mainly observed others’ trade tussles, to being an active participant in formal dispute settlement [...]. Emerging markets, whose share of world trade is growing, [now; jw] feel confident enough in the dispute settlement system to use it”* (The Economist, 13 February, 2010, 74).

*How* the Asian Business Drivers take part in the global ‘good business’ discussion—on (dt A) terms or rather on (O) terms—is contingent on factors introduced in chapter 4: value chain governance, ownership of firms and modes of global outreach. The variance of (A) in the case studies (chapter 5.3) shows that for various classes of Asian Business Drivers and certain variables, the business environments in which (O) prevails seem to be shaping legitimacy actions. For instance for the role model and output legitimacy elements of business legitimacy, Asian Business Drivers remain to operate well within an (O) environment and (A) is thus aligning with (O).

The empirical findings furthermore suggest that when aligning with (O) (within an (O) environment), Asian Business Drivers not necessarily simply enter the given status quo by adapting to it and following the given rules. In an (O) environment, the Asian Business Drivers’ increased interpretative authority may play out as innovation. Some Asian Business Drivers are innovators in the ‘good business’ debate, making use of their enhanced voice in the business legitimacy governance – *based on (O)*. The case of Lenovo (chapter 5.3.2.4) has been mentioned as an example of this.

The Asian Business Drivers’ increased interpretative authority plays out even more clearly, however, in a (dt A) environment, in which innovation may occur based on (dt A): Asian Business Drivers then introduce new rules and concepts to the debate. These rules and concepts respond to the requirements of their domestic institutional (dt A) environment, rather than to the (O) concepts. The observed process of the reception of SA 8000 in China (see chapter 5.5) exemplifies this.

It has been made evident in the course of this study that in both incidences – alignment with (O) rules or introduction of self-designed (dt A) rules – *the newcomers exert a clear impact on the global debate as they enter it*. The future global business legitimacy governance (termed (O’)) in the research design) displays traces of the Asian Drivers’ domestic discourse (dt A) and the Asian Business Drivers’ actual patterns of business legitimisation (A).

## 6.2 Review of concepts

An explicit aim of this study has been the logical and methodological structuring of the political scientific field of research of business legitimacy governance and the Asian Drivers’ role within it (see chapter 1.4.3). Other aims have been informing the current global discourse on ‘good business’ or ‘Corporate social responsibility’ (see chapter 1.4.1), as much as specialised actors in the business world (see chapter 1.4.4), and finally, policy-makers in international and development cooperation (see chapter 1.4.5).

With regards to these aims, various concepts have been developed and empirically test-applied: i) the notion of Asian Business Drivers, including definitions of classes of Asian Business Drivers; ii) scales for the measurement of businesses’ social legitimisation; and iii) an explanatory pattern model of entering agreements with the side condition of changing balances

of bargaining power, which is grounded in observations of empirical processes in China. These concepts are briefly reviewed here.

### 6.2.1 Applicability of heuristic Asian Business Drivers concept

The Asian Business Drivers have been defined as businesses that have emerged as important actors originating from the political economies in rapid transition of the Asian Drivers countries India (in rapid transition since 1992) and China (in rapid transition since 1979) and that exert distinctive and significant impact on the global economy. This defines them as actors of global governance at the intersection of the streams of research on private governance and on the Asian Drivers of Global Change (chapter 4.1).

Using definitory attributes regarding value chain governance, ownership and modes of global outreach, empirical research in China has included a number of cases of Asian Business Drivers. The Asian Business Drivers classifications have been cross-validated with related listings such as the Fortune Global 500 list, or approaches such as the “*100 New Global Challengers*” (Aguiar 2006).

The cases (and similar cases) have been described in chapter 4.2 and proven useful for research on various aspects of business legitimisation in chapter 5.3. Five distinct classes of Asian Business Drivers point at specific aspects of the business actors’ legitimisation challenge. By looking at the *State-owned Multinational Enterprises*, the ‘mixed mission’ of representing a structural element of a socialist society’s set-up, while simultaneously becoming a multinational enterprise comes into focus. *Private Business Pioneers* indeed carry the DNA of post-revolutionary private business in China, but nevertheless are of decreasing importance in the global ‘good business’ discussion. In the case of the *Supply End Drivers*, the inversion of chain governance is intriguing: They are no longer easily steered by OECD lead firms’ concepts, but themselves govern value chains instead, assuming roles of lead firms themselves. *New Global Brands* can display highly innovative ways of maintaining brand value in transnational stakeholder environments. Observations on the *New Global Sourcers* exemplify their specific challenge of applying global standards in overseas investment projects, while never having had the chance to practice them at home.

Within the broader discourse on anchor countries (Stamm 2004; BMZ 2004), certain conceptual notions on the Asian Business Drivers could potentially feed into currently recurring thinking on “*third world multinationals*” (Lall 1982; Lall 1983; Mirza / Miroux 2007; Dörry / Stamm 2009) and their role in global development. As FDI from the South is growing disproportionately and the implications thereof remain to be assessed (UNCTAD 2006), the businesses acting on these investments come into focus. For the most significant countries of ‘South-FDI’ origin, China and India, the Asian Business Drivers are the relevant actors to observe. As has been seen in recent years, these observations can turn out to be highly contentious: the discussion on Chinese businesses implementing investments in Africa has been highly politicised and emotionalised (chapter 1.4.5). Conceptual differentiation can help to divert over-generalisations and interest-led assertions away from these discussions. In the case of China, showing the missions and restrictions of State-owned Multinational Enterprises, Private Business Pioneers, Supply End Drivers, New Global Brands and New Global Sourcing, with particular regard to their respective legitimisation challenges, could bring clarity to the debate.

Asian Business Drivers could also be among the constructive global governance actors from the South that OECD development cooperation actors are looking for when searching for business partners that navigate more steadily in the markets at the ‘base of the global economic pyramid’ (Hart / Prahalad 2002) than their OECD counterparts. Multinational enterprises from ‘the South’ potentially contribute to economic development more effectively and efficiently than OECD firms that are often burdened with high cost structures (Dörry / Stamm 2009). For instance, large scale vaccination programmes for developing countries are already supplied by biotechnical companies in China, because of the fact that the Chinese products are more affordable to public health authorities in the target countries than OECD companies’ products (Path 2009).

While this study’s results on Asian Business Drivers might instruct such further inquiries on ‘South-MNEs’, however the Asian Business Drivers classification is preliminary and subject to further refinement. Further research should, for instance, qualify degrees to which classes are indeed ‘Asian Drivers’-specific in the sense that they are found in both Asian Drivers countries. Researchers may find that e.g. Private Business Pioneers have not played the particular role in India that has been observed in China. In

contrast to China, private business had already existed in India before the rapid transition phase. The ‘Asian Drivers’ scope of the concept, however, is likely to be confirmed for the other classes: India, like China, is currently transforming its political economy by innovating new forms of societal production systems. India’s capitalism also departed from a planned economy in which SOEs played a significant role. It developed large-scale supplier clusters and global brands and it currently establishes globally active sourcing companies that cater for India’s resource needs. A test application of the concept of Asian Business Drivers to businesses in India therefore seems rewarding.

## 6.2.2 Applicability of business legitimisation scales

The scales for measuring businesses’ legitimisation efforts include analytic and discursive aspects. While the former are not contingent on the empirical context in which they are applied, the latter are.

The discursive aspects have emerged from qualitative, context-specific research: As the scales were constructed with the help of empirical scrutiny of the Chinese circumstances, the extreme values of the scales have been defined with reference to features found in the Chinese policy discourse (dt A) at one extreme and with reference to the (O) benchmark found in the OECD discussion at the other. Transferring these scales to other empirical situations requires re-defining the extreme values and re-qualifying the threshold values (see annex 8).

The analytic presuppositions of the scales, however, are not affected by different contexts. The validity of the elements of business legitimacy that have been derived from the pertinent legitimacy literature in political science, is given across varied empirical contexts. The elements *role models*, *ideational stakeholder inclusion*, *procedural stakeholder inclusion* and *output legitimacy* are components of businesses’ social legitimacy in politico-economic contexts of varied capitalisms. With the help of these elements, fuzzy concepts and frequently-used buzz words in the global ‘good business’ discussion (see chapter 1.4.1) may eventually be substantiated. Legitimate business, understood in this analytic sense, renders the discussion on ‘Corporate social responsibility’ and its many derivatives seizable for scientific scrutiny and conceptual progress.

Notwithstanding, and in accordance with the qualitative research programme, the outline of future research projects should be designed as open as possible, so as to be receptive for specific features that may occur in different empirical contexts.

### 6.2.3 Applicability of pattern model

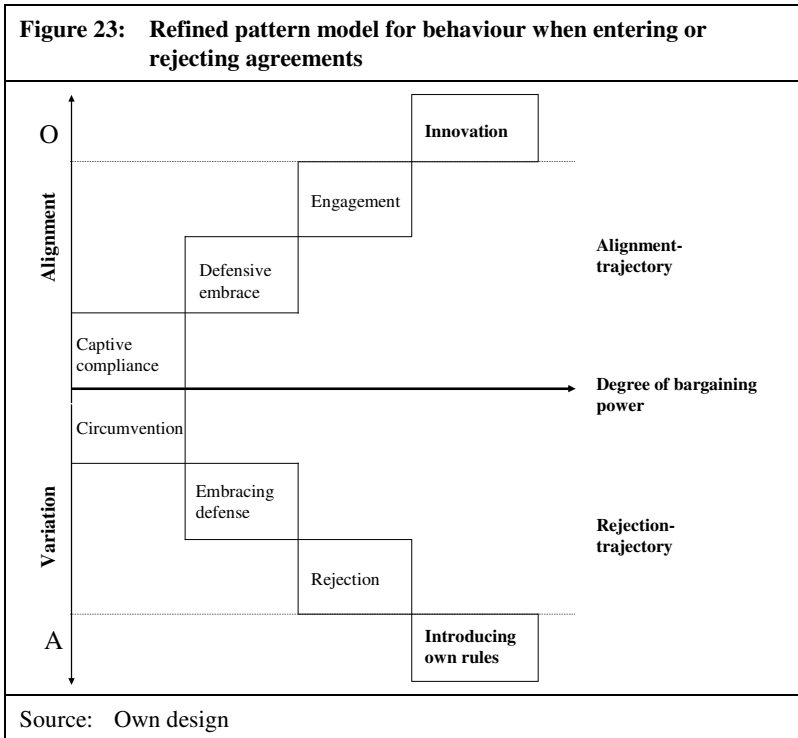
The model of behavioural patterns for the entry into agreements has been developed in the particular examination of Chinese emerging global players within this study (see figure 23). Nevertheless, it comprises categories that are independent of the specific contexts which they have emerged from. The model holds explanatory power for those situations, where a group of actors joins in (or is expected to join in) comprehensive agreements, and both the group’s relative bargaining power and the group’s interpretations of the issues to be agreed on are dynamic factors to consider.

The model is useful when observing similar occasions of global governance discussions, and notably in the interaction of the OECD world and the Asian Drivers world, such as, for instance, the arrival of China as an actor in the WTO rules system (Gu / Humphrey / Messner 2007, 11 ff.; see 6.3.2).

Coping strategies, which need to account for dynamic and procedural aspects of the interaction between old and new drivers of global change, may be informed by the model. For instance, coping strategies would anticipate the importance of symbolic politics that determine, independently from the content of policies, the chances for proliferation of policies: In the perspective of symbolic politics, not so much the policy itself, but rather the way the policy is being conveyed, makes agreement more or less likely. Thus, for such coping strategies, the model recommends *avoiding rejection trajectories* (such as the ones observed in chapter 5.5), and *pursuing alignment trajectories* instead. Through this, the evolution of multi-polarised discussions is hindered and multi-lateral consent is facilitated.

At this very abstract level, the transfer of the study’s results to research on India seems viable. India is an emerging economy that is equally bound to integrate into the global economy, not as a marginal player but as a driver of global change. And in the same way as has been observed for China, Indian discourses might as well introduce alternative features to the global discussion. The prevalence of both factors that inform the model – changing balances of bargaining power and alternative concepts of the issues to

be agreed on – indicates that the application of the pattern model may indeed be supportive to research on both of the Asian Drivers countries.



### 6.3 Review of theoretical framework

Is the global economy disintegrating or integrating? Is the evolution of capitalistic modes of production – which have penetrated nearly all production systems, and even those which are nominally still ‘socialistic’ – now entering a phase in which fragmented forms of institutional arrangements develop, causing connectivity problems among each other? Or are institutional arrangements (such as, e.g. forms of business legitimisation) integrating by virtue of repeated, habitualised exchange, thus closing the anomic gaps that were so clearly exposed by ‘globalisation’s discontents’ (s. chapter 3.1.1.1)?

In the following two chapters, anticipations on answers to these questions are reviewed in the light of the results of this study. To this end, the theoretical framework is being reviewed according to the two dimensions ‘global capitalism’ and ‘global change’. In various instances, however, the conclusions drawn from this research on the particular field of business legitimacy can now be related to the broader questions on global governance posed above.

### 6.3.1 Global capitalism dimension

In the scope of this study, varieties of capitalisms have been discussed while examining an assumption of variation between the OECD type and the Asian Drivers’ types of business legitimisation. The literature this examination was embedded in, does not arrive at a coherent result.

Seen through the lens of the ‘varieties of capitalisms’ (VoC) idea (chapter 3.1.4.1), variations in their institutional configurations need to be considered when studying individual features of political economies. As quite similar outcomes are yielded by quite different capitalisms, “*capitalism can no longer be studied as a whole*” (Höpner 2003b, 21).

The VoC scholars’ focus therefore lies on national level configurations of institutional arrangements, and potential complementarities therein. A set of institutional practices is complementary to another whenever each set increases the returns available from the other (Hall / Gingerich 2004, 22). Therefore, practices of business legitimisation are anticipated to be *complementary* to prevailing institutional practices in the overall configuration.

VoC thus provide explanations for all empirical incidences in which (A) type practices are varied from the OECD world’s. These practices are designed to be complementary to domestic institutional environments, which in turn are varied from those in the OECD. As noted above (see chapters 5.2.3, 6.1.1), at the level of the Chinese domestic discourse, a distinct typus of business legitimacy can be observed that responds to institutional arrangements of the political economy and of the society at large. Although it had been adopted earlier from external (OECD-)actors, the ‘good business’ discussion in China (dt A) is now endowed with a comprehensive range of ‘Chinese characteristics’ and in this exhibits a clear variance to OECD standards and practices.



As seen in the empirical chapters, e.g. State-owned Multinational Enterprises (chapter 5.3.2.1) not only have to respond to, but *are part of* the institutional set-up of the political economy. Significant parts of their legitimisation strategies follow a (dt A)-informed approach that is distinctly varied from the OECD world's. When limiting philanthropic activity to beneficiaries inside China, for instance, the SOMNEs prioritise ideationally including the national stakeholders. For them, reputation built up within the national economy is still far more important than their image within transnational stakeholder constituencies.

Even more clearly so, the (mostly small and medium-sized) Private Business Pioneers (chapter 5.3.2.2) pursue legitimisation strategies that seek complementarities within the national framework institutional setting. The empirical observation showed, for instance, how a broad range of government stakeholders – clearly dominating the range of acknowledged stakeholders – needs to be included in the every-day business operations in a procedural manner, in order to retain the businesses' license to operate (quite literally).

As in these cases each time features of the domestic institutional set-up (reputation among domestic stakeholders, the need to include various government actors in procedures) are the drivers for legitimisation strategies, arguments in favour of complementarity hold sway. VoC approaches can thus explain incidences of variation between OECD ideal-typical forms of legitimising business and the currently evolving Chinese one.

However, it must be recognised that the complementarity arguments of the VoC literature are directed at other system components *within one* political economy. Thus, a very important limitation applies when using these arguments for the discussion of transnational industrial organisation in the global economy. Increasingly, the *relevant overall institutional configuration* within which transactions take place is the global economy – rather than any individual nation's. This tendency of globalised exchange had triggered the 'good business' discussion in first place (see chapter 3.1.1.2).

Issues of transnational industrial organisation in global value chains seem to be more appropriately addressed in the transaction costs-theoretic approach to the issues under scrutiny. Transaction cost theory acknowledges that in the face of the impossibility of exhaustive contracts (Williamson 1990, 57), there is a cost of using price mechanisms and markets (Coase 1937). The costs of preparing, implementing and monitoring economic exchange are a

function of the institutional environment within which the transaction takes place. And since in the global economy, the relevant institutional environment increasingly is the deficiently structured global one, transaction costs become a factor.

Whereas with the help of VoC explanations (A) can be looked at from the angle of complementarities within an Asian Drivers environment (and, accordingly, (O) from the angle of complementarities *within* an OECD environment), the transaction cost view is able to also conceptualise the *crossing* of the national boundaries of institutional arrangements as exercised in vast amounts of economic exchange transactions.

In order to compensate for the deficient, at times *anomic* institutional framework in the businesses' global framework of action, businesses engage in the 'good business' discourse with the end of constructing a self-imposed proto-institutional framework. This can be observed in many rule-making arenas in which globally operating businesses play a constructive role, such as for instance the Global Reporting Initiative (GRI).

From the perspective of the transaction cost-conscious rational actor, sustaining varied business legitimacy patterns is counterproductive and costly. Instead of variation, *the alignment* of patterns is to be anticipated.

This stance, too, is supported by empirical evidence. Being one of the most prominent but simultaneously most globalised among businesses in China, Lenovo (see chapter 5.3.2.4 New Global Brands) makes pronounced efforts to align its sustainability report with (O) standards, such as the GRI (Lenovo 2007, 55). Lenovo aligns with these (O) rules in order to connect to, and procedurally include, its transnational stakeholders from the OECD world. In view of transaction costs, this alignment further builds on the proto-institutional framework in the globalised sphere of business action, with the ultimate aim of reducing the costs of transacting. The same argumentation holds true for the New Global Sourcers (see chapter 5.3.2.5), who have largely adopted the sustainability-centered role model discussion of the OECD world. Being confronted with OECD stakeholders (consumers of end products, civil society actors, academia etc) in their overseas sourcing operations, this strategy arguably reduces frictions in the business legitimacy (or CSR) discussions.

With simultaneous incidences of variance *and* alignment within the same field of research on the one hand, and of VoC and transaction cost-theoretic

logics explaining these incidences on the other, the limits of explanations within the global capitalism dimension of this research design are marked. While the occurrence of each individual incidence of VoC and transaction cost-theoretic logics can be explained conclusively, their co-occurrence cannot. Moreover, ambiguous patterns remain unexplained: the ambiguity that has been identified, first, between the discourse level (dt A) and the level of business action (A) and second, between the pure variation and the pure alignment types of businesses' empirical legitimisation efforts.

Rather than posing alternatives, the empirical findings suggest that (A) is determined by a *concurrence* of varieties of capitalisms and transaction costs logics.

SOMNES, for instance, have been characterised as a part of the institutional set-up of the national political economy. But at the same time as they focus on national stakeholders for philanthropic measures, they are aligning with (O) role models, or with ways of procedurally including stakeholders that clearly measure up to the (O) standards.

As the static view of the global capitalism dimension does not provide explanations for these ambiguous results, a dynamic model has been suggested in the course of the study. The assumption of variation between (A) and (O) has been revised and amended with the pattern model developed in chapter 5.4 (see figure 23). This pattern model finally illustrates how the suspense between both empirical realities, variation and alignment, is in itself an important result of this study. According to the model, *the way in which variation or alignment take place* is interesting and relevant for the debate: not linear and unidirectional, but according to specific, in parts ambiguous, patterns that become explicable in the global change dimension.

### 6.3.2 Global change dimension

Transnational industrial organisation takes place in power-structured global value chains within which interaction is not exclusively determined by *price*, but also by non-market, "explicit" forms of coordination (Gereffi / Humphrey / Sturgeon 2005, 82). The term "value chain governance" (Gereffi / Humphrey / Sturgeon 2005, 79; Stamm et al. 2006, 37 ff.) comprises of various forms of explicit coordination exercised by lead firms that set and enforce norms in global value chains. The 'good business' discus-

sion is one among many privately governed forms of explicit coordination that are being enforced in the global value chains as a constituent part of value chain governance.

Which lead firms enforce the rules and norms in the global value chains is decisive for the global business legitimacy discourse. So far, since the value chains have typically been commanded by lead firms from the OECD, the (O) types of business legitimacy prevailed.

However, a dynamic view on the global business legitimacy governance needs to take into consideration the ascendancy of the Asian Drivers of Global Change, China and India, who are about to change the rules of the game (Kaplinsky / Messner 2008, 197) and the room to maneuver in the global economy (Gu / Humphrey / Messner 2008, 20). "Asian Driver firms" (Kaplinsky / Messner 2008, 200), "new Asian lead firms" (Schmitz 2005, 8), or – as they are called in this study – Asian Business Drivers of Global Change are already altering the patterns of governance in the global value chains, and by that, the global business legitimacy governance, too.

As China and India are building up hard politico-economic power, but also soft power applicable to various aspects of the issue, leaving out China or India in any global conclusion on business legitimacy would mean excluding an increasingly significant part of the global economy. The ascendancy of the Asian Drivers and their increasing levels of soft bargaining power mean that China and India assume increasing degrees of *interpretive authority* in the global business legitimacy governance.

The global change dimension-informed scenario of an altering global business legitimacy governance that is characterised by increasing amounts of Asian Drivers' interpretive authority now provides a background against which the ambiguous results observed in the global capitalism dimension can be explained as conclusive patterns.

The observed patterns can be understood as processes in which the Asian Drivers enter into agreements over interpretations of legitimate business in the global economy. Noteworthy, these agreements are concluded between parties that represent those relatively disadvantaged by global change (the OECD world) on the one hand, and the relative winners (the Asian Drivers) on the other. Thus characterised, the processes of entering into agreements show how patterns of ambiguous collective behaviour provide solutions to contradicting forces impacting the entering party, i.e. the Asian Drivers.

For instance, the desire of the ascending power to extend their stakes in the governance architecture in emancipative ways may be satisfied if assuming the authority to act in varied ways from the dominant OECD status quo. In this case, actors are inclined to introduce varied rules to the discussions on business legitimacy: Either, because the own rules are complementary with domestic institutional arrangements while the external ones are not; or, simply because they have acquired the hard and soft power presuppositions to enforce varied stances in the debate – or even both. But emancipation is costly: As seen before, transaction costs incur when acting in ways varied from the dominant status quo. In the context of the ascendancy situation, these can be termed the ‘costs of success’ (N01/159).

However, transaction cost-conscious rational actor models only conditionally apply: the costs of success are gladly payed, whenever actors can afford them and if variation yields additional emancipative benefits.

In between captive situations in value chain governance (Gereffi / Humphrey / Sturgeon 2005, 84; see 4.1.3.1) and the role of an emancipated innovator of self-designed rules, intermediate, ambiguous patterns can be identified. Communicating alignment to the dominant rules while in fact diverting (‘embracing defense’) can be one in-between way of adapting to the ascendancy situation: It allows, at least temporarily, to escape the costs of success entailed by divergence, while at the same time following practices that are more complementary to one’s own institutional and stakeholder environments. Empirical evidence for this pattern is provided by the wide-spread subscription of Chinese businesses to the UN Global Compact in the past – also by those that evidently did not care a lot about the substance of its principles’ (see chapter 5.5.1.2).<sup>143</sup> The alleyway ranging from captive and circumvention situations via the ‘embracing defense’ reaction towards a situation, in which actors reject the external norms and introduce their own rules, that are based on the features of the domestic institutional set-up, has been termed ‘rejection trajectory’ (see chapter 5.4.2).

However, transaction costs may exceed a tolerable level, so that alignment to the global benchmark is the preferable choice for the ascending power

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143 It is frequently claimed that China is shying away from the costs of its successful ascendancy to global economic and political significance. E.g., “*too often China wants the power due a global giant while shrugging off the responsibilities, saying that is still a poor country*” (The Economist, 4 February, 2010, 9). Similar observations have been made in the survey of this study (e.g. P 16).

actors. The actors are then inclined to align with the rules in the arenas in which the debates are developed – in order to have a say and eventually innovate. In this case, however, innovation takes place based on the status quo rules.

In between the captive (or circumvention) situation in value chain governance and alignment to the status quo, a further ambiguous pattern is identified: communicating variance while actually aligning (‘defensive embrace’) may likewise become feasible in the ascendancy situation: It (at least temporarily) reaps the benefits of emancipative distinction that can be yielded in the area of symbolic politics, while at the same time lowering transaction costs. Empirical evidence for this pattern is provided by the CSC9000T standard (see chapter 5.5.2.3), which is being communicated as the Chinese variation of reacting to the ‘good business’ discussion. In essence, however, the provisions of CSC9000T are broadly the same as in any international standard in the debate.<sup>144</sup> The alleyway ranging from captive (and circumvention) situations via the ‘defensive embrace’ reaction towards a situation, in which actors align with the status-quo norms, or at times even innovate based on the status-quo rules, has been termed the ‘alignment trajectory’ (see chapter 5.4.2).

The two theoretical approaches that seemed irreconcilable in the global capitalism dimension can thus be synthesised from the point of view of global change. Varied institutionalised practices of ascending powers may persist even in an interdependent globalised world, where additional transaction costs incurred by institutional variance can be critical. The propensity to persist varied institutionalised practices is favoured by higher levels of relative bargaining power of the ascending power (moreover in forms of lead firms’ bargaining power in global value chains), higher levels of exposition to nation-state confined stakeholders and greater ability and willingness to bear additional transaction costs. The ascending powers’ propensity to persist varied institutionalised practices is in turn reduced, by lower levels of relative bargaining power, higher levels of being exposed to transnational stakeholders and lower capabilities to bear additional transaction costs.

In this study, the institutionalised practices under scrutiny are forms of legitimising business action. In this specific field of research on the global

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144 This, importantly, excludes the right to organise and the right to bargain collectively, of course.

business legitimacy governance, finally, both VoC and transaction cost theoretical explanations integrate: In the course of the observed processes, the Chinese actors assume higher levels of soft bargaining power ('interpretive authority') over the business legitimacy debate, imposing on it distinctively varied characteristics of a Chinese capitalism. Above all in the contexts of overwhelmingly domestic stakeholders, business action is instructed by varied, self-designed rules. This is still the case, even when actors communicate alignment with the status quo rules ('embracing defense').

This, in turn, is not in contradiction to the fact that within an overall emancipative discourse, businesses in many cases align with the status quo benchmarks with the intention of reducing transaction costs. Eventually, they follow transaction costs-conscious paths, and even align, when seeming and communicating not to do so. In these cases they follow 'defensive embrace' patterns, in which only a façade of institutional variance is being displayed.

This complex, at times ambiguous, adaptive behaviour of Asian Business Drivers ascending to increased global significance has to be reckoned with when scrutinising the future of business legitimacy governance in global capitalism.

The pattern of co-occurrence of emancipative rejection of dominant rules and alignment with the prevalent set-up for more pragmatic reasons, however, can also be observed beyond the scope of this particular subject of business legitimacy governance. As Gu et al. observe, China's arrival at the international system is far from being complete, and a 'joining mentality', rather than a 'role-player mentality' is yet prevalent (Gu / Humphrey / Messner 2007, 9). This 'joining mentality' is characterised by a blend of pragmatism and symbolism: "*China's pragmatic approach explains the collective mentality of a country anxious not to make the world afraid of it, while it pursues a pathway of rapid economic development. However, China is simultaneously a country with a colonial history and has a firm unwillingness simply to accept Western moral and political hegemony*" (Gu / Humphrey / Messner 2007, 10).

Examples for this are China's approaches to trade disputes within the WTO framework (Gu 2006; Gu / Humphrey / Messner 2007). When it joined the WTO's rules of the game, many onlookers wondered if China would try to revise the global governance of trade or strengthen it. "*These dichotomised*

*views of China’s likely behaviour and impact fail to appreciate the nuances of its position. China’s use of the dispute settlement system (DSS) at the WTO reveals that it can be assertive and willing to defend what it sees as its own interests, while simultaneously working within the established WTO framework”* (Gu / Humphrey / Messner 2007, 12). As a further indication, this *“pragmatic approach, (...) in the context of the WTO (...) is also a characteristic of China’s UN Security Council participation”* (Gu / Humphrey / Messner 2007, 9).

## 6.4 Implications for global governance thinking

Global business is in the midst of a legitimacy crisis: in the past, the blame for conflict within societies has frequently been passed on, at least in parts, to the business world. Since the global financial and economic crisis of 2008, however, business has been declared outright evil by many. In view of the legitimacy literature in political science (chapter 3.1.2), this is a highly precarious situation, threatening the legitimacy belief in – and thus the existence of – the social institution business.

First steps of the analyses that presuppose solutions for the global crises of business legitimacy have been made in this study: If viewing global capitalism as an advanced form of social division of labour, an ‘anomic’ situation has to be attested (chapter 3.2.1.2). The insufficiency of the status quo rules’ governance of global economic exchange has been exposed repeatedly. There are gaps in the institutional environment that encompasses the global exchange transactions. These gaps, which are most visible in the recurring discussions on social standards in global production (s. chapter 3.1.1.1), are reminiscent of the pathological social division of labour which Émile Durkheim has described as ‘anomic’ (Durkheim 1988; see chapter 3.2.1.2). In Durkheim’s perspective, the ‘good business’ discourse is a response to anomic conditions in the globalised production regime.

This study’s empirical survey found that closing the anomic gaps in interpretations of legitimate business requires shared role models (R variable), appealing notions of brands (I variable) and interest arbitration procedures (P variable) that are designed in such a way that relevant stakeholders may find themselves represented. Additionally, economic and non-economic output (O variable) that effectively benefits the transnational stakeholders, is required.



Alignment for these elements of business legitimacy forms part of a dynamic that reproduces rules, with the effect of bridging the moral gaps in exchange. Habitualisation takes place: in the course of the exchange partners' repeated discussion over ad-hoc rules they coagulate to norms and become codified eventually, e.g. in the form of codes of conduct, norms or industry standards.<sup>145</sup> Transaction costs logics enforce these habitualisation-driven alignment processes. Theoretically, the anomic gaps in global business legitimacy governance should therefore close as a result of repeated exchange.

However, emancipative gains in the realm of symbolic politics that become attainable for ascending global governance actors, drive divergence and persist anomic gaps in the global institutional environment. The resulting force of varieties of capitalisms dynamics and transaction cost dynamics – one eventually outweighing the other – impacts on the business legitimacy part of the global governance discussion.

Therefore, the single most important implication of this study's results for the global governance discussion is that constructive efforts working out on the deficient, at times anomic, global institutional set-up need to avoid dynamics that adhere to logics of the rejection trajectory, and seek those that adhere to alignment trajectory logics.

The empirical survey conducted in the frame of this study provides indications for both: within the recurrent interaction between OECD actors and Chinese actors, the OECD-born 'good business' discourse has established itself in China. In the course of the interaction, the Chinese actors changed their positions from passive and overwhelmed onlookers to interested observers and finally proactive drivers – aligning themselves in constructive ways, at least in selected parts of the discourse. These phases of transformation towards more constructive interaction (chapter 5.5.1) display characteristics of habitualised self-healing processes of anomic gaps in the global institutional set-up.

As seen in the exemplary process on SA8000 (chapter 5.5), however, rejection trajectories have been triggered. Instead of bridging the gaps in comprehension that separate varied interpretations of legitimate business ([O]

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145 See, e.g. the evolution of the ISO26.000 guidelines on Social Responsibility, within which actors from the South played a particularly important role.

and [dtA]), OECD actors imposed de-contextualised codes of conduct, such as SA8000, on the Chinese actors by means of superior bargaining power. Chinese actors either involuntarily complied with, or disguisedly circumvented these. But as soon as changes in the balance of bargaining power allowed for it, they openly rejected these rules and replaced them with the self-designed CSC9000T guidelines.

It becomes evident from this empirical rejection trajectory dynamic that closing anomic gaps is – in contrast to what the Durkheimian perspective suggests – *not* a self-reinforcing process. Rather, it is an exercise that requires *intentional constructive efforts* that need to account for changes in the balance of bargaining power. These efforts need to avoid ‘rejection trajectory’ logics while seeking ‘alignment trajectory’ logics at the intersection of global power shifts. And as has been mentioned before, the greater interest in mediation between the relative winners and losers of global power shifts lies with the relative losers.

From this vantage point of business legitimacy governance, the broader questions of global governance that have been raised before can now be answered. The global economy is both drifting apart and organically growing together at different loci of the global value chains, depending on the resulting forces of the varieties of capitalisms and transaction cost logics.

For the question of whether the new drivers of global change are integrating into the established status quo or representing revisionist ascending powers, there is no strict alternative. Even before these changes in bargaining power took effect, the global institutional status quo has been unfavourable and in urgent need of revision. Before, the fragmented character of the global business legitimacy governance has been disguised by the fact that OECD actors’ rules remained uncontested in the global value chains. Even though the captive actors in the global value chains may have questioned these, they had no chances to voice their concerns. This state of affairs has been an unfavourable one, anyway, in terms of the normative global governance view that seeks emancipated global interest arbitration in order to solve pressing global problems. This unfavourable situation, however, has now not only been made more visible, but also rendered more complex and difficult to tackle, by the Asian Drivers’ arrival to the debate.

## 6.5 Policy implications: Reproducing comprehension between winners and losers of power shifts

Participants in the Asian Drivers debate predict a multi-polar world as a result of the global power shifts (Humphrey / Messner 2006b, Fues et al. 2006, Fues 2007): *“In 2025–2030 at the latest, the US, China, India, and possibly Europe will constitute significant poles of power in the architecture of global governance”* (Humphrey / Messner 2006b, 1). Thereby, multiple power poles in world politics might fragment global policy discussions, thus posing major obstacles to urgently needed multilateral problem-solving. Translated into the terms of this study, this means that the hitherto OECD-dominated global discussion on ‘good business’ is threatened to disintegrate into many streams led by multiple discussants. The global crises of business legitimacy will be very hard to overcome in such a scenario.

As observed, China, rather than merely aligning with global rules, grows into a dynamically changing system where other emerging players together with China change the status quo, thus far led by the OECD. In order to make the resulting system work, the interaction with Asian Drivers in the global arenas requires strategies that avoid multi-polar constellations. These would have to account for the increasing interdependence between the OECD world and the Asian Drivers in the economic realm, while at the same time coping with at best temporary tendencies of fragmentation in the political and discursive arenas. Recognising the importance of soft power and symbolic politics of the kinds which have been analysed in this study will be of crucial importance for the viability of these strategies. In the following, some alleyways for these coping strategies are indicated by looking at failures to avoid (chapter 6.3.1) and opportunities to seize (chapter 6.3.2). Chapter 6.3.2 looks into the practical-political applicability of the recommendations.

### 6.5.1 Past failures

In order to defuse fragmentation and further multilateral solutions in global governance, the intersection of trajectories has to be identified, where relative losers and relative winners meet in order to exchange communicative codes and reciprocally construct benign images which enable both to view each other as non-threatening opposites (Gu / Humphrey / Messner 2007, 21). Benign images are the currency by which mutual comprehension – as the precondition for consent on standards and global agreements – is being

exchanged. Instead of benign images, however, more often *malign* ones have passed between OECD and Chinese actors in the past. To the same extent that ‘China-Bashing’ became a widespread practice in the West (see chapter 1.4) Chinese reproaches gained momentum.

### 6.5.1.1 Malign images

“In Germany they see the ‘yellow threat’: they steal our jobs, they ruin our economy and poison the health of our children” (P20/84). Chinese responses to such claims follow suit: “On the contrary: after our entry to the WTO, a lot of global giants came to China and monopolised some of the industries, e.g. the automotive and cosmetics industries and retailers (P16/36). We still have a lot of problems to solve in the countryside, and the majority of our population lives there. Therefore, the ‘Chinese threat’ is a little ridiculous. We are still busy with our domestic problems” (P16/70).

While the mutual exchange of malign images (‘threat’, ‘monopolisation’) is merely unpleasant in every-day conversations, it can turn destructive when played out against agreements on global problems in which multi-lateral consent is needed. “All developed countries like the US and Europe talk about climate change. They had fast development in the past 50 years, but now they complain that the Asians rise – are they crazy?” (P15/12)

Symbolic politics has to be considered: In addition to the content of the criticism, *who* is criticising becomes important. “At some stage, certain mechanisms kick in that you can compare to the way a family works: One begins to defend against a third party those very facts which you would criticise internally. This can lead, for instance, to nationalist tendencies” (P20/87). These tendencies have been highly visible during the events of 2008, when China had been in the focus of the global public for most of the year, starting with the violent riots in the Tibet Autonomous Region in mid March and not receding until after the Olympic Games in late August. Chinese fought back external criticism with increasing verve, thereby gathering in the name of nationalist indignation those very internationally-minded individuals that are most outspoken when criticising the system from within.

### 6.5.1.2 ‘Bad business’ Carrefour

Increasingly often, such defensive reactions turned against western businesses as the most tangible representations of the West in China. In April

2008, an exchange of malign images between the West and China in one series of events linked various aspects of business legitimacy in China: the interaction of Chinese and western perceptions of the Tibet issue, Chinese non-market stakeholders raising their voice (5.2.2.3) and the globalised character of the Beijing Olympics.

After the handicapped Chinese athlete Jin Jing had been attacked by a French protestor during the Olympic torch relay in Paris on 7 April, pictures of this incident and comments on it mushroomed in Chinese bulletin boards. On 10 April, an anonymous blogger posted lists of French companies active in China, among them luxury brands like Chanel, Dior and Cartier (Frost 2008a, 3). Other bloggers were quick to add ever longer lists, with the suggestion of boycotting them. A rumour then focused the Chinese netizens' attention on the French retailer that is most successful with the growing Chinese middle class of consumers – Carrefour: According to the rumour, the CEO of LVMH (Moët Hennessy Louis Vuitton) and shareholder of Carrefour Bernard Arnault had provided financial support to the Dalai Lama Foundation (Frost 2008a, 3). Thereafter, Carrefour has been targeted during extended protests in most of its 122 super markets in the country. The protests did not fade until after French President Sarkozy had apologised to Jin Jing and the Chinese government stepped in. Out of concerns for stability, it calmed down the people by stressing the economic benefits Carrefour would bring to China.

Intriguingly, this has been a hitherto unseen phenomenon where *Chinese stakeholders*, instead of western ones, effectively sanctioned a western multinational enterprises' conduct in society. And as consumer boycotts were the starting points for the OECD-based 'good business' discussion in the past (1.2.2.3), this event marked the entry of Asian Drivers stakeholders in the global 'good business' discussion. The discussion on what legitimate behaviour of global business should look like has ceased to be an exclusively OECD stakeholders' affaire. And most visibly for the Tibet issue, Asian Drivers stakeholders bring into that debate varying, if not opposing, views to those voiced in the OECD. In the future, these views will have to be considered, also by OECD-based global businesses.

Besides the business legitimacy aspects involved, the Carrefour protests showcased how malign images<sup>146</sup> can hinder comprehension between the OECD world and China as an Asian Driver. Chinese blogger Roland Soong

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146 This is a malign image in a very literal sense, here: the photo of the attack on Jin Jing.

commented that this single image set back any moderate discussion on Tibet *within China* by at least a generation (Frost 2008a, 3).

### 6.5.1.3 Media wars

In the past, Western and Chinese media alike have not only reflected, but actually spurred on mutual non-comprehension, most articulately in 2008, the year of Olympics. Before, only a small group of cultural brokers on either side had been able to exchange communicative codes between the general publics in China and the West. Today, the permeability of cultural barriers has been enhanced by not only information and communication technology, but also through the increased interaction and interdependence that has been brought about by globalisation. Thus, public opinion is interchanged more effectively than ever before, and the mass media play a vital role in this. And while the mass media in the OECD world create images on China that are in fact meant to cater to domestic audiences, they are nowadays also perceived in China (P18/82). And if malign images are created, this now provokes immediate antitheses.

This dynamic is epitomised by the website *anti-cnn.com*, which initially exposed mistakes or manipulation (for instance by cropping photos) in the western mass media coverage of the Tibet riots in March 2008. "Look at CNN with Tibet, look at *Der Spiegel*: they had pictures of Indians beating somebody in Northern India or Nepalese beating people in Nepal and the reports said: 'Chinese police is beating protestors in Tibet'. So what those people get who haven't got the international exposure and who have only read all this on the internet is: That ain't right! The west tells lies about us!" (P18/81) And even as the peak of global attention on the Tibet issue has passed, *anti-cnn.com* continues its retribution campaign by placing pictures of dying Iraqi children under the headline "*Free Tibet, free Iraq?*"<sup>147</sup>

In all, failures to create benign images in the symbolic interaction between China and the OECD world have been manifold, and these manifold failures have each been multiplied by the media on either side. Lacking the 'currency' benign images, however, mutual comprehension has hardly been reproduced on any of those critical concerns of the year 2008. This clearly compromises the potential for consent in agreements on global governance.

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147 See: [www.anti-cnn.com](http://www.anti-cnn.com), last accessed on 26 January, 2009.

## 6.5.2 Future alleyways

Symbolic politics interfere with processes of inviting the ‘winners’ of global power shifts in global agreements. The pattern model developed in this study (see fig. 23) sketches two alternative trajectories. With reference to the trajectories, it can be argued that alignment – as a result of constructive political efforts based on mutual comprehension – is the more profitable solution, not only for the relative losers in global power shifts, but also for the winners. By aligning, the latter reduce transaction costs *and* gain confidence among transnational stakeholders to be both benevolent and innovative actors in global governance. In effect, this further increases the ascending powers’ (already elevated) soft power position. The following chapters substantiate this stance and recommend to avoid rejection trajectories while pursuing alignment trajectories.

### 6.5.2.1 Avoiding the rejection trajectory

Trajectories at which the Asian Drivers reject status quo rules and standards and introduce self-designed ones can lead to multi-polar, fragmented constellations. From a global governance point of view, therefore, these trajectories are to be avoided. With the results of this study, it can be argued that they are also to be avoided from the subjective points of view of the interacting parties:

OECD actors seek to smoothen out transactions with the Asian Drivers. In the course of conveying the standards to value chain actors, large investments have already been made by OECD businesses and stakeholders. Confronting these standards with new variations inevitably costs additional funds and time.

A rejection trajectory is also detrimental to the Asian Drivers actors. As the scrutiny of the Asian Business Drivers’ legitimisation efforts showed (5.3), even the Chinese state-owned enterprises (‘SOMNEs’) align their role models and stakeholder inclusion strategies with the OECD benchmarks (see chapter 5.3.2.1). And New Global Sourcers (NGS) are currently rapidly catching up with the terms of the OECD-led discussion in order to facilitate their overseas transactions (see chapter 5.3.2.5). In an increasingly interdependent global political economy, pursuing a rejection trajectory – although this might serve the emancipative aspirations of the ascending power – considerably raises transaction costs. As the example of Cosco’s

CSR reporting showcased (6.2.1), rejecting the status quo standards requires additional efforts of discussing, auditing and monitoring according to self-designed standards. As the observations show, Asian Business Drivers are only up to a certain point willing to bear such costs, which occur for the sake of the defensive symbolic politics of variation from the OECD status quo.

Moreover, rejection dynamics imply that Asian Business Drivers neglect their transnational stakeholders’ claims. This increases the legitimacy problems – at least for those among them, whose outreach is increasingly global. And while rejection can earn businesses prestige within national stakeholder settings, it is likely to diminish its soft power position in transnational stakeholder settings. Very likely, transnational stakeholders then attach to them an image of a destructive driver of fragmentation in global governance.

The rejection trajectory thus means a costly combination of higher transaction costs, legitimacy problems in global spheres of action and the acquisition of an image of a driver of fragmentation. Even if successful players can afford to reject OECD standards by introducing their own rules, the rejection trajectory significantly increases the costs of success.

This is certainly not a favourable option for far-sighted Asian Business Drivers. Importantly however, the pronounced emancipative character of the rejection trajectory can mean that businesses follow this path *despite of its costliness*. Particularly businesses with elevated exposure to political decision-making might be both pushed towards and financially supported when setting out on a path of rejection.

### 6.5.2.2 Pursuing the alignment trajectory

Similarly, a situation in which ascending powers are following an alignment trajectory is favourable with regard to the systemic outcome *and* each party’s individual outcome: i) aligning with status quo standards lowers transaction costs; ii) aligning with the priorities of a predominantly OECD transnational stakeholder environment fortifies Asian Business Drivers’ legitimacy base; iii) benign symbolic politics – best enacted as the ascending powers’ policies are incubated during the introduction and observations phases in the processes of joining agreements – help to build up an image as a benevolent and constructive global governance actor.



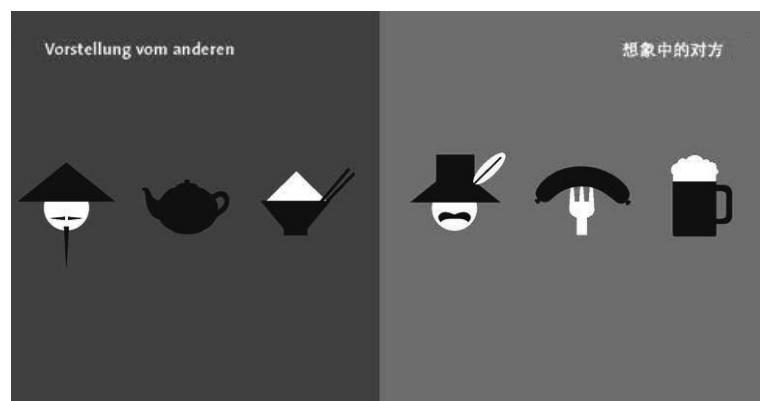
Obviously, there are also costs incurred for the Asian Drivers actors when pursuing the alignment trajectories. These costs incur while learning to apply the prevailing standards in transnational stakeholder environments. Abstaining from the self-assured use of bargaining power may also be judged as the abandonment of ‘Chinese characteristics’ and role models by domestic stakeholders – or worse, as allegiance to foreign forces.

However, for these situations, alignment still offers ways to be silhouetted against the OECD status quo. By *innovating on the basis of the OECD standards*, Asian Drivers actors can realise the gains of alignment while simultaneously entering the global stage on self-defined terms. As observed in chapter 5.3, New Global Brands such as Lenovo are forerunners in designing new role models that embrace the OECD ones, but soon surpass them, thus positioning themselves as an important actor in the ‘good business’ debate. Thanks to these innovative change actors, this debate will then shift away from its current OECD center of gravity, this time creating adaptive pressures on the OECD world actors.

The alignment gains combine reduced transaction costs with an image of a constructive, moreover innovative, global governance actor raising the ascending actor’s position of soft power. However, as there might be incentives for pursuing rejection strategies, the ascending power has to be *invited* to pursue the alignment path by the status quo actors. This is best achieved by offering the currency in which mutual comprehension is being reproduced in the regime of ideational exchange: benign, non-threatening images that evoke empathy and self-reflection on both sides and thus make true mutual comprehension possible.

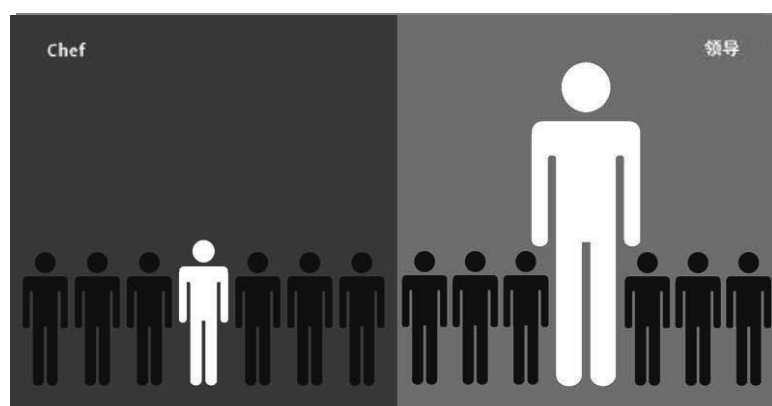
As an illustration and in fact reification of the notion of benign images, the German-Chinese artist Yang Liu has assembled a series of antithetic pictograms mirroring the West (blue screen) and China (red screen). Being truly ideal-typical in the Weberian sense (see chapter 2.1.5.2), they immediately trigger reflexive comprehension in a tongue-in-cheek, benign way – as is urgently needed as the foundation for consent between the parties (see figures 24 and 25).

**Figure 24: "The conception of the other"**



Source: Yang Liu Design

**Figure 25: "Boss"**



Source: Yang Liu Design

### 6.5.3 Example: The OECD process on ‘Responsible Business Conduct’

While having been inclusive for non-OECD views to some extent (E22/59), the OECD Guidelines for Multinational Enterprises are not universally agreed upon. And the Guidelines’ historical context of the North-South divide of the 1970s, and therein the discord between OECD and developing countries over binding rules for multinational businesses, is still remembered today. The OECD Guidelines are thus an industrialised countries project, influenced by liberal Anglo-American values and Continental-European stakeholder-oriented views (see chapter 1.2.2).

An immediate testing ground for the results of this research is therefore the dialogue process on ‘Responsible Business Conduct’ between the OECD and China as part of the OECD’s 2008 Investment Policy Review on China (OECD 2008a. Implicitly and explicitly in this dialogue process, the OECD invites China to adopt the Guidelines for Multinational Enterprises, while at the same time looking for suitable ways of having this invitation accepted.

As the OECD is currently trying to substantiate this process by including new empirical research,<sup>148</sup> this process is briefly featured here as an example for the practical application of this study’s policy recommendations.

#### 6.5.3.1 The dialogue process

After focusing on ‘Progress and Reform Challenges’ in 2003 (OECD 2003) and on ‘Open policies towards mergers and acquisitions’ in 2006 (OECD 2006), the OECD’s 3rd Investment Policy Review on China focuses on ‘Encouraging Responsible Business Conduct’ (OECD 2008a). In order to review the draft of the Investment Policy Review’s central chapter, an ‘OECD-China Multistakeholder Symposium on Chinese and OECD Government Approaches to Encouraging Responsible Business Conduct’ was held from 26 to 27 June, 2008 at the OECD Conference Center in Paris.<sup>149</sup>

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148 *“It was said [during a workshop of the multistakeholder symposium; jw] that several assertions in the background document required some more substantiation through inclusion of the results of existing empirical research and recommended that the OECD carry out further work in this direction”* (OECD 2008a, 254).

149 The responsible Senior Economist at the OECD is Kenneth Davis. Among others, OECD Deputy Secretary General Thelma J. Askey also participated.

The OECD approached the issue at a most difficult moment in 2008, when the mutual exchange of malign images had been rampant (see 6.2.1). Wang Zhile, Director of the Government Think Tank CAITEC had already before the symposium introduced the concept of ‘soft competitiveness’ to the process (5.2.1.3, see the mention of it in OECD 2008a, 144). This process is therefore a classic example for the OECD world’s and the Asian Drivers’ ‘good business’ concepts meeting in the same discursive arena.

However, very few Chinese representatives sat down at the conference tables in Paris,<sup>150</sup> and the ones that did, were not very engaged.<sup>151</sup> And while the Investment Policy Report on “*Encouraging Responsible Business Conduct*” was published in late 2008 (OECD 2008a), the process on agreeing on standards has only begun. How can the results of this study help to master the challenge faced by the actors of this dialogue process?

### 6.5.3.2 The challenge of the dialogue

According to the OECD’s explicit offer, “*the OECD Guidelines for Multi-national Enterprises can help build the harmonious society*” (OECD 2008a, I, 10). The challenge, however, is to make this offer acceptable to both the Chinese and simultaneously to the Guidelines’ traditional OECD stakeholders (OECD governments, the Trade Union Advisory Committee TUAC, the Business and Industry Advisory Committee to the OECD [BIAC], civil society actors etc). So far, the Guidelines had been used as an industrialised countries’ instrument for enforcing social standards in transnational value chains, adhering to ‘old drivers’ logics as described in chapter 1.2.2.3. Now, as the governance patterns in global value chains transform by virtue of the arrival of the Asian Business Drivers, the old enforcement mechanisms no longer suffice. With Asian Business Drivers increasingly gaining bargaining power in the global value chains, there is a need to invite them to enter into new agreements on interpretations of ‘good business’. Here, the Guidelines can sideline this invitation by offering to act as a reference document, but not as irrevocable and static. On the other hand, presenting the Guidelines as too flexible can result in losses of cred-

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150 This was also due to official travel restrictions on the Chinese side after the Sichuan earthquake disaster.

151 This is not only the author’s subjective observation, but the view of many participants, e.g. also respondents P09, P10, P19.

ibility among its OECD stakeholders.<sup>152</sup> The challenge of the process lies in moderating between these limitations.

Such an invitation has in fact been made at the Paris symposium (by BIAC representative Brian Cress).<sup>153</sup> He suggested that while it may not be appropriate to import international standards such as the OECD Guidelines from abroad, they provided the foundation for dialogue and could be adopted by the Chinese as a basic framework. However, a variety of independent guidelines or own Chinese CSR catalogues would make less sense.

### 6.5.3.3 Implications of this research for the dialogue process

The OECD's invitation to the Chinese to enter this dialogue process can be assessed using the concepts that have been developed in this study: Coping strategies to render this invitation beneficial should consider first, the observed business legitimacy governance, second the role of Asian *Business Drivers* therein, and third the pattern model for entering agreements.

First, the dialogue on RBC has to consider conceptions of business legitimacy on either side. As the examination of (Chinese) Asian Business Drivers' efforts for business legitimisation has shown, these significantly align with the OECD benchmark across important aspects, such as for role models and output legitimacy. And while variations persist for strategies of stakeholders inclusion (5.3.3), this dialogue can start building on the variables already aligning. For instance, further developing the existing discussions of role models, while placing shared basic values at their focal points, can provide the normative core in the emerging dialogue. "*The common objective we all share is ensuring Sustainable Development in China and beyond*" (OECD 2008a, 254) the report claims as a consequence.

A "*lack of clarity over definitions of Corporate Social Responsibility and RBC*" (OECD 2008a, 254) may even count as advantage here, as this allows for an appropriate entry point for the Chinese side that can charge

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152 See e.g. the international NGO alliance 'OECD watch' (<http://oecdwatch.org>), which monitors the implementation of the Guidelines and the work of the National contact points.

153 Brian Cress was the rapporteur of Working Group A at the symposium. See also in the report: "*Many in the Group (though not all) saw the OECD MNE Guidelines as providing a benchmark*" (OECD 2008a, 254).

from the domestic role model development<sup>154</sup> (see chapter 5.2.1). This way, for instance, a conflux of the western discussion on 'social cohesion' and the Chinese one on 'social harmony' may be designed. The OECD publication already makes numerous references to the concept of the 'harmonious society', thus emphasising its importance for the dialogue.

The role of Asian Business Drivers is a second aspect to consider. So far, particularly the overseas activities of Chinese companies were in focus. As one Chinese participant recalls, "one of the main issues discussed in the OECD symposium is Chinese companies investing in less-developed countries such as African ones, or East Asia, because in those areas, the OECD is concerned about equal competition. If OECD companies follow the OECD guidelines, but Chinese companies don't, they think that there is no equal competition in those countries. So this is one of the most important issues between the OECD and Chinese government" (P10/72).

The issue has entered the dialogue: "*With Chinese corporations appearing as major new investors internationally it could also help develop a common understanding of what doing business internationally requires in terms of societal expectations and obtaining a 'license to operate'. This was seen as particularly urgent in areas of mineral extraction, and infrastructure work where some corporations were seen to be competing on different standards compared to others*" (OECD 2008a, 254 f.).

The last phrase, however, has been the subject of an argument during the Paris symposium. The draft read as "*where Chinese corporations were seen to be competing on different standards compared to others*". However, various discussants opposed to explicitly mentioning Chinese corporations competing on "*different*" (obviously implying 'lower') standards. One participant from Ghana confirmed that OECD companies' conduct in his country was no better than that of Chinese businesses, and this would not be helped by the fact that the written standard is more advanced. Although one NGO representative insisted emphatically, the phrase was dropped. In the course of the competition for markets and resources in developing countries between OECD companies and Asian Business Drivers, pointing fingers at

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154 One interviewee noted that the role model development is an open-ended process: "So it's indeed opening up, this harmonious society thing is still an open concept, an open process; you never know what it is" (P23/91).

one another on grounds of moral claims should be handled carefully – as it can easily be exposed as hypocrisy.

Finally, the pattern model for the entry into agreements and the conclusions from it (see chapters 5.5 and 6.1.3) can bear fruits for this dialogue. Coping strategies applied in dialogue processes such as this one should try to avoid rejection trajectory logics and constructively pursue alignment trajectory logics.

For reasons of symbolic politics, for instance, the perception of the Guidelines as being an industrialised countries project should be prevented. The institutionalised memory of Chinese policy making usually spans long periods in history<sup>155</sup> and the distinct industrialised countries' bias in the history of the Guidelines will most likely be factored in. For the same reasons, it should be avoided to create malign images – either through wording, interaction or small details of the dialogue's proceedings. The example of the wording of the symposium's outcome ("*competing on different standards*") is a case in point. One Chinese participant even suggested the conference venue Paris, which bore negative connotations for Chinese since the Olympic torch bearer Jin Jing had been attacked there (6.2.1.2), to have been a reason for reluctant participation on the Chinese side (P10/53).

Pursuing an alignment trajectory in turn would mean to invite the Chinese actors to innovate based on the Guidelines; for instance, by applying features of the Chinese domestic discourse, such as their own role models and strategies of stakeholder inclusion, while mutually exchanging benign images. It would therefore be needful to present the Guidelines as negotiable to the extent to which the inherent value content is being given primacy over the symbolic politics content. The scrutiny of Asian Business Drivers' practice showed that sustainable development as shared basic value content is acceptable to Chinese actors, while any political mission

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155 E.g. the British company Jardine Matheson excelled during the East British trade between England, India and China in the 1830s. Jardine Matheson's appeal to the British crown after the Chinese emperor banned opium imports, was followed by two Opium Wars (1839–42 and 1856–60) – a major humiliation in Chinese recent history. This, and the withdrawal from Hong Kong just before the re-unification of Hong Kong and China has reportedly played a role when the Chinese government in the mid 1990s strongly and successfully opposed awarding the contract to build a new container terminal in Hong Kong to a consortium, in which Jardine Matheson participated.

driven by the industrialised countries is not. It would therefore be necessary to strip away any political, and therefore negotiable, content from the Guidelines in order to bring to light and commit to a non-negotiable but *shared core of basic values*.

This will of course feed back to the internal OECD discussions on 'good business'. It is barely avoidable to discuss issues of freedom of association when interacting between Chinese and OECD based concepts of 'good business'. If then, as recommended here, the OECD concepts are being presented as negotiable, OECD based trade unions and labour rights NGOs are likely to object. For the stakeholders involved, it is then of critical importance to leave behind the old ways of reverting to stereotype (malign) images about workers' rights in China, but rather to establish a dialogue between the OECD-based pressure groups and Chinese agents for change: As seen, there are new institutional arrangements gaining ground in contemporary China's industrial relations, which cannot yet be called freedom of association, but which approximate collective bargaining processes (see chapter 5.2.2.2). These are still silent instances of institutional innovation that nevertheless deserve to be acknowledged by OECD stakeholders.

Ultimately, due regard of symbolic politics would suggest to embed the results of the dialogue process on the OECD Guidelines in new forms of governance structures: Like in other global governance processes, China is transforming the structure of the institutionalised 'good business' discussion by entering it. And the Asian Driver India can be expected to do likewise in the future. In a similar fashion as solutions to other global governance issues, therefore, discussing 'Responsible Business Conduct' on a global scale will have to leave behind its current OECD center of gravity.

Naturally, declaring large parts of the OECD Guidelines to be subject to negotiations in the dialogue with China requires a courageous decision, close attention to issues where basic values might be touched and a strong political will. It has been conclusively argued in the course of this study, however, that passively watching the Asian Drivers drifting towards behavioural patterns of *rejecting* the OECD norms and installing self-designed rules, instead, is a bad alternative. It would further fragmentation and multi-polar constellations in the global governance architecture. If consciously pursued, in turn, an *alignment* strategy could render this dialogue process an example of successful global governance.





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## **Annexes**



**Annex 1: Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
1	E01		Guo Peiyuan	SynTao Ltd.	Co-Founder	Consultancy	Beijing	Nov 2005
1	E02	50	Guo Peiyuan	SynTao Ltd.	Co-Founder	Consultancy	Beijing	Nov 2006
1	E03	1	Yang Guang	China Academy of Social Sciences (CASS)	Director, Institute of West Asian and African Studies	Academia	Beijing	16.11.2006
1	E04	3	Stephen Frost	CSR Asia	Director	Consultancy	Shenzhen	23.11.2006
1	E05	4	José Antonio Puppim de Oliveira	Fundação Getulio Vargas (FGV)	Brazilian School of Public and Business Administration	Academia	Salvador/BA	11.12.2006
1	E06	5	Djordjija Petkoski	World Bank Institute	Team Leader Business, Competitiveness & Development	International Organisation	Washington DC	23.02.2007
1	E07	6	Pedro Lins	FIX Consultoria	Director	Consultancy	Sao Paulo	03.03.2007
1	E11	9	R. Kyte	The World Bank / IFC	Specialist	International Organisation	Washington DC	27.04.2007
1	E12		A. Patnaik	Antyodaya Chetana Mandal, Orissa, India	Founder	NGO	Bonn	13.05.2007

**Annex 1 (cont.): Overview Empirical Data**

Module	PD	PD#	Name	Organisation	Position	Sector	Location	Date
1	E13	10	Brian Ho	CSR Asia	Director, Beijing Office	Consultancy	Hong Kong	15.06.2007
1	E14	13	Martin Höpner	Max-Planck-Institut für Gesellschaftsforschung	Research fellow	Academia	Cologne	15.06.2007
1	E15	29	Guo Peiyuan	SynTao Ltd.	Co-Founder	Consultancy	Beijing	18.03.2008
1	E16	51	George Lau	TÜV Rheinland Shenzhen Group		Business	Shenzhen	26.03.2008
1	E17	52	Jeremy Prepscius	Business for Social Responsibility (BSR)	Asia Director	Consultancy	Hong Kong	28.03.2008
1	E18	49	Sally Begbie	Global Hand	Director	NGO	Hong Kong	28.03.2008
1	E19	64	Wang Kan	Ren Men University, School of Labour & Human Resources, Inst. of Labour Relation	PhD Candidate	Academia	Berlin	04.05.2008
1	E20	48	Jeff Qiao	China Institute of Industrial Relations (ACFTU)	Dean of Labour Relations Department	Trade Union	Berlin	04.05.2008
1	E21	11	Sigurt Vitols	Wissenschaftszentrum für Sozialforschung (WZB)	Research fellow	Academia	phone	09.05.2008

**Annex 1 (cont.): Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
1	E22	37	Rainer Geiger	OECD	Deputy Director for Financial and Enterprise Affairs	International Organisation	Buenos Aires	24.09.2008
1	E23	78	Yang Guang	China Academy of Social Sciences (CASS)	Director, Institute of West Asian and African Studies	Academia	Bonn	13.07.2006
2	A01	24	Profile Wu	Beijing Air Catering Ltd.	Vice Chairman	Business	Beijing	
2	A0101	19	Annie Wu	Beijing Air Catering Ltd.	Vice Chairman	Business	Beijing	17.03.2008
2	A0102	21	Annie Wu	Beijing Air Catering Ltd.	Vice Chairman	Business	Beijing	18.03.2008
2	A0103	26	Hans Wang	Beijing Air Catering Ltd.	Assistant General Manager	Business	Beijing	18.03.2008
2	A0201	65	Wang Kan	Ren Men University, School of Labour & Human Resources, Inst. of Labour Relation	PhD Candidate	Academia	Beijing	19.03.2008
2	A0202	44	Wang Kan	Ren Men University, School of Labour & Human Resources, Inst. of Labour Relation	PhD Candidate	Academia	Beijing	08.07.2008

**Annex 1 (cont.): Overview Empirical Data**

Module	PD	PD#	Name	Organisation	Position	Sector	Location	Date
2	A0301	79	SC Lau	YangtzeKiang Garment MFG Co. Ltd	Director	Business	Panyu	24.03.2008
2	A0301		KK Chan	YangtzeKiang Garment MFG Co. Ltd	Production Expert	Business	Panyu	25.03.2008
2	A0304	33	SC Lau	YangtzeKiang Garment MFG Co. Ltd	Director	Business	Panyu	25.07.2008
2	A0305	34	KK Chan	YangtzeKiang Garment MFG Co. Ltd	Production Expert	Business	Panyu	25.07.2008
2	A0306	15	YGM	Company Info		Business	Panyu	
2	A0307	14	SC Lau	YangtzeKiang Garment MFG Co. Ltd	Director	Business	Panyu	24.03.2008
2	A0401	12	Zhai Qi	China Business Council for Sustainable Development	Deputy Secretary General	Business	Beijing	14.07.2008
2	A0501	30	Hawk Lee	Huayou Cobalt Co. Ltd	Executive Vice President	Business	Hangzhou	18.07.2008
2	A0601	28	Ping Jian Guo	Zhonghui Rayon Co. Ltd.	General Manager	Business	Hangzhou	18.07.2008
2	A0701		Jennifer Atepolikhine	Swire Beverages	Ethos International	Business	Hong Kong	29.07.2008

**Annex 1 (cont.): Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
2	A0801	2	Thilo Huys	Lenovo Group	Manager Corporate Communications Germany & Austria	Business	Beijing	12.08.2008
2	A0802	18	Anthony Feng	Lenovo Group	International Media Relations, Olympic Marketing, Greater China	Business	Beijing	16.08.2008
2	A0901	25	David Kelly	University of Technology Sydney	Adjunct Professor	Academia	Beijing	13.08.2008
2	A0902	38	Chalco CSR report		Business	(document)		
2	A0903	39	Chalco and TAR cooperation			Business	(document)	
2	A1201		CIMG docs, diverse	China International Mining Group		Business	Beijing	18.07.2008
2	LA0101	53	André Mantovani	Grupo Abril	Diretor-Geral de Midia Eletrônica	Business	Montevideo	29.11.2007
2	O0101	17	Xavier Chen	BP Group	Government Relations	Business	Beijing	11.08.2008



**Annex 1 (cont.): Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
3	P01	55	Sherin Lin	TÜV Rheinland Shenzhen Group	Vice Gen. Manager Education & Consult., South China	Business	Shenzhen	09.11.2007
3	P02	57	Holger Kunz	TÜV Rheinland Shenzhen Group	Managing Director	Business	Shenzhen	27.03.2008
3	P03	27	Adam Lane	Plan International	Corporate Partnerships	NGO	Beijing	04.07.2008
3	P04	58	NN	Ministry of Commerce	Dept. for Aid to Foreign Countries	Government	Beijing	07.07.2008
3	P05	59	NN	Ministry of Commerce	Ex. Dept. for Aid to Foreign Countries	Government	Beijing	07.07.2008
3	P06	60	Patrick Schroeder	Centre for Sustainable Production and Consumption (CSCP) UNEP-WI	Consultant	International Organisation	Beijing	08.07.2008
3	P07	40	Uwe Weber	China Standards and Certification Center	Technical Director	Government	Beijing	08.07.2008

**Annex 1 (cont.): Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
3	P08	43	Wang Kan	Ren Men University, School of Labour & Human Resources, Inst. of Labour Relation	PhD Candidate	Academia	Beijing	08.07.2008
3	P09	42	Ben Gunn	German Technical Cooperation (GTZ)	Project Coordinator, CSR Programme	International Organisation	Beijing	09.07.2008
3	P10	31	Guo Peiyuan Chen Ying	SynTao Ltd.	Co-Founder	Consultancy	Beijing	10.07.2008
3	P11	72	Philippa Kelly	EU-China Trade Programme	Senior Advisor	International Organisation	Beijing	10.07.2008
3	P12	74	Yan Yan	China National Textile & Apparel Council (CNTAC)	Vice Director, Office for Social Responsibility	Government	Beijing	11.07.2008
3	P13	61	NN	Ministry of Commerce	Dept. of Trade	Government	Beijing	14.07.2008
3	P14	22	Yin Gefei	China WTO Tribune	Vice President / Director	Consultancy	Beijing	14.07.2008
3	P15	71	Zhou Wei Dong	Business for Social Responsibility (BSR)	China Director	Consultancy	Beijing	16.07.2008

**Annex 1 (cont.): Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
3	P16	66	Zhang Jinsheng	Shenzhen WTO Affairs Center, Shenzhen Trade Barriers Appeal and Investigation Services Center	Director	Government	Shenzhen	22.07.2008
3	P17	75	Brian Ho	CSR Asia	Director, Beijing Office	Consultancy	Hong Kong	28.07.2008
3	P18	76	Stephen Frost	CSR Asia	Director	Consultancy	Hong Kong	29.07.2008
3	P19	70	Tam Man Kei	Greenpeace China	Sustainable Finance Campaigner, Business Unit	NGO	Hong Kong	31.07.2008
3	P20	69	Lars Doerner		Expert	Business	Hong Kong	08.03.2008
3	P21	77	May Wong	Globalisation Monitor		NGO	Hong Kong	02.08.2008
3	P22	54	Sherin Lin	TÜV Rheinland Shenzhen Group	Vice Gen. Manager Education & Con- sult., South China	Business	Shenzhen	07.08.2008
3	P23	73	Martin Ma	SAI	China Director	NGO	Beijing	13.08.2008
3	P24	23	NN	Ministry of Commerce	Dept. for Aid to Foreign Countries	Government	Beijing	13.08.2008

**Annex 1 (cont.): Overview Empirical Data**

Mod- ule	PD	PD#	Name	Organisation	Position	Sector	Location	Date
3	P25	62	Wang Qian	Ministry of Commerce	Deputy Director General, Research Center on TNC, CAITEC	Government	Beijing	15.08.2008
3	P2502	68	Wang Zhile	Ministry of Commerce	Director General, Research Center on TNC, CAITEC	Government	Beijing	Wang 2007
3	P2503	32	Wang Qian	Ministry of Commerce	Deputy Director General, Research Center on TNC, CAITEC	Government	Beijing	note by email
3	P2504	63	Wang Zhile	Ministry of Commerce	Director General, Research Center on TNC, CAITEC	Government	Beijing	Wang 2007
3	P27	41	Aaron Peng	German Technical Cooperation (GTZ)	Project Coordinator, CSR Programme	International Organisation	Beijing	09.07.2008
3	P28	67	Zhang Junying	Ministry of Commerce	(retired) Dept. For Aid to Foreign Countries	Government	Beijing	07.07.2008
3	P29	35	NN	certification company		Business	Hong Kong	Feb. 2003
Notes	N01	16	field note			(document)	(document)	

**Annex 1 (cont.): Overview Empirical Data**

Module	PD	PD#	Name	Organisation	Position	Sector	Location	Date
Notes	N02	36	note Joe One			(document)	(document)	
Notes	N03	20	Protocol DM			(document)	(document)	
Notes	N04	45	China Digest06			(document)	(document)	
Notes	N05	46	Digest China 0308			(document)	(document)	
Notes	N06	47	Mercosur Digest06			(document)	(document)	
Notes	N07	56	Note Huawei New Labour contract law		(document)	(document)		

Source: Own compilation

## **Annex 2: Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)**

### *Objectives of the interviews*

The in-depth company interviews are part of the set of instruments comprised by survey module 2, which aims at scrutinising the variation assumption.

The concept “business legitimacy” (“acquisition and retention of legitimacy”) has been decomposed into the four sub-concepts “role models”, “ideational stakeholder inclusion”, “procedural stakeholder inclusion” and “output”.

The objective of the in-depth company interviews is to concretise the (previously identified) analytical categories “stakeholder networks” and “business policies”. Concretising the categories should result in identifying specific stakeholders, characteristics of stakeholder relations, modes and “currencies” of exchange between company and stakeholders (for the former) and identifying form and content of communication with stakeholders (for the latter category).

During data collection and data analysis – which are grasped, in accordance with the qualitative approach in empirical social science, as intertwined processes – the results are mapped with the elements of business legitimacy through ‘constant comparison’.

Furthermore, constant comparison within the empirical as much as between the empirical data and the O values (OECD benchmark) arrives at the definition of scales, the definition of significance threshold values and the assignment of values for the empirical data.

### *Introduction to interview*

In order to render them accessible for the target group, the topics of the survey are introduced as “[Company x] and its social environment”. In the course of a comprehensive introduction, the interviewees are invited to assume a view of their company as a network of formal and informal (social) contracts. Through this, the abstract stakeholder concept can be communicated in a language that features less cognitive barriers for the target group. If this introduction is successful, aspects of informal (social) contracts are increasingly stressed in the course of the interviews, as these mark the extreme of the spectrum, in which companies must meet legitimisation challenges.

## Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)

### *Structure of interview guidelines*

The structure of the interviews (see sample questionnaire below) mirrors a dynamic that is characterised by increased concreteness. Thereby, the fact is accounted for, that the interview situation adheres to an attention curve: The attention increases at first and decreases again as the interview proceeds in time. The most important questions are therefore asked in the second third of the interview (Diekmann 1996:414).

The first part of the interview ‘Businesses in Society’ combines the introduction to the network of contracts view of the company and an ‘ice-breaker’-question. Here, the ‘warming-up’-function prevails; the interviewee should right from the beginning be escorted into a communication situation which Krueger characterises as „permissive, non-threatening environment“ (Krueger 1994:6). By presenting different and multi-dimensional views on businesses social legitimacy (not necessarily from the O-A spectrum), a variety of opinions is displayed. Thereby, the different and maybe even contradicting views are presented as equivalent and equally legitimate. Through this ice-breaker, the references to the interviewee’s experiences, his/her mental framework, gets activated. Furthermore, the ice-breaker encourages the interviewee to position her/himself within the variety of views on a topic which has been introduced as a complex one.

Question 1.1: “Please read the following statements. Do they match your views? Please rate from 1 to 5 (1 = I agree perfectly; 5 = I don’t agree at all)”

„The business of business is business.“	(Milton Friedman, Economist)
“The company will participate in activities to promote public welfare, and make a contribution to the harmonious development between business and society.”	(Wang Tianpu, Director President, SINOPEC)
“Companies should focus on making profits while governments should regulate companies to be responsive to social and environmental responsibilities.”	(World Bank Course)

## Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)

„Business thrives where society thrives“

(Peter Sutherland, former Director-General of the WTO)

„Like it or not, the global economy is pushing us all closer together“

(John Dalla Costa)

The most important information is being collected in parts 2 and 3 of the interviews. Here, the reactivity of the instrument is an important opportunity which, in order to realise on, requires the proactive engagement and the skills of the interviewer. The researcher tries to dig deeper at particular moments and topics, thus trying to explore new insights and linking them to pre-established concepts, in order to triangulate with data he collected before or with hints in literature, or as frequently as possible, to establish time horizons in order to live up to the processuality aspects of the research object. This is the very stage in the empirical research process, in which unexpected insights can be revealed.

Part 2 “Important groups and individuals” identifies the stakeholders of the company:

Question 2.1: “What are the most important groups or individuals that the company has to address in its operations? Please note down.”

The mentioned stakeholders are noted down by the interviewer and also tape-recorded. After naming the stakeholders, the interviewee is asked to prioritise the stakeholders by assigning ranks from 1 to 6.

Whereas this question helps to identify the nodes in the companies’ network of stakeholders, the next question tries to shine light on the nature of the connections between the nodes—the relationships between the company and its stakeholders.

Question 2.2: “There is a mutual relationship between these groups or individuals and the company. In what ways is the relationship between the company and these groups or individuals maintained? What do they contribute and what do they expect from the company?”

Part 3 “The company’s communication” tackles the analytical category “Business Policies”:

Question 3.1: “In what ways does the company communicate (written or orally) with its social environment?”

Question 3.2: “What is the purpose of this communication?”



## Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)

Whereas question 3.1 draws on the interviewees’ reservoir of experience regarding existing policies in the company, question 3.2 demands her/his reflection on the policies: If issuing and communicating policies can be understood as part of tackling the legitimisation challenge, then clues in how far Asian Business Drivers’ acquisition and retention of social legitimacy within their network of stakeholders varies from the OECD-type (VA) are expected to come to the fore at this stage of the interview.

Question 3.3, to conclude, puts the previously defined sub-concepts of business legitimacy to the test:

Question 3.3: “What do you think is most relevant for the businesses’ social environment?”

- To share common values with the business
- To identify with the business through a good image
- To be regularly included in businesses decision-making processes
- The company’s success
- Others

In parts 2 and 3, aspects of business legitimacy, according to previously defined sub-concepts or according to newly identified ones, are expected to surface. During all stages of the empirical research process, these aspects have to be mapped with the analytical categories and sub-categories, in order to be able to define scales and thresholds within the scales which serve the purpose of discerning variation from conformity between the variables A and O (scrutinising VA). However, this does not happen automatically, but requires the interviewer to proactively direct the conversation. Through immediately reacting to the interviewees’ statements and diving deeper at certain stages of the interview (“can you think of examples?”, “how was this five years ago?”), the interviewer must accomplish to realise on the processuality advantage of the reactive instrument. He must accomplish to array the “snapshots” of information in meaningful ways in order to attain a time-bound “moving picture”.

In part 4, the decay of the attention curve is being intercepted by including a few of the interviewees’ personal data.

## **Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)**

### *Technical instructions before and during the interview*

A few simple but important guidelines have to be regarded, before and during the interview, in order to gain good interview results:

- Thank participants for willingness to take part in survey
- clarify that statements are used for scientific purposes only and will under no circumstances be accessed by news media
- agree on modus of anonymisation of person and organisation
- seek approval for tape-recording
- brief introduction to each thematic block
- ‘ice-breaker’: short introduction to and transparent comments on the research
- find and apply common language (technical terms, appearance, non-verbal communication)
- pose questions to enrich the data with new aspects that surface during interview (“Can you please explain in more detail...”)
- where applicable, establish a time horizon (“...how was this five years ago?”)
- avoid value judgments, suggestive questions as much as verbal and non-verbal sanctions to statements
- try to counter-act social ‘social desirability effects’ (Diekmann 2007:447f) that make more probable patterns of answers which are perceived as desired. This is particularly relevant for the highly normative topic of CSR; Therefore: avoid signal words (“CSR”, “responsibility”, “social standards”, “compliance” etc.) which can trigger biases in interviewees’ answering behaviour. Social desirability effects can be limited if the communication situation is designed as neutrally as possible through appearance, formulations or non-verbal communication.

### *Technical instructions after the interview*

- thank participants for the invested time
- furnish the interviewee with an outlook of the follow up of the interview:
- provide transcript of interview in order to clarify misunderstandings and get authorisation from interviewee

## Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)

- time line of presentation of results and offer to send a detailed report
- say goodbye
- note down description of the interview situation, observations made and particularities of the interview in a detailed interview protocol.

### Questionnaire: Lenovo and its Social Environment



Questionnaire No. \_\_\_\_\_

Date: \_\_\_\_\_

Time: \_\_\_\_\_

Location: \_\_\_\_\_

**Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2  
“ideal type generation”)**

Anonymisation of the interview data

Do you wish your data to be made anonymous?		Yes <input type="checkbox"/>	No <input type="checkbox"/>
If yes, in which way?	Name anonymous <input type="checkbox"/> Name and position anonymous <input type="checkbox"/>		
Other way of anonymisation:			

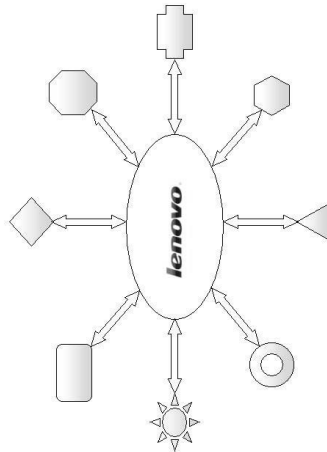
**Businesses in Society**

Rank	Please see the following statements. Do they match your views? Please rate from 1 to 5: 1 = I agree perfectly 5 = I don't agree at all		
	"The business of business is business."  (Milton Friedman, Economist)		
	"The company will participate in activities to promote public welfare, and make a contribution to the harmonious development between business and society"  (Wang Tianpu, Director President, SINOPEC)		

**Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)**

	<p>„Companies should focus on making profits while governments should regulate companies to be responsive to social and environmental responsibilities.“ (World Bank Course)</p>
	<p>„Business thrives where society thrives“ (Peter Sutherland, former Director-General of the WTO)</p>
	<p>„Like it or not, the global economy is pushing us all closer together“ (John Dalla Costa)</p>

**The company Lenovo as a set of contracts with important groups or individuals**





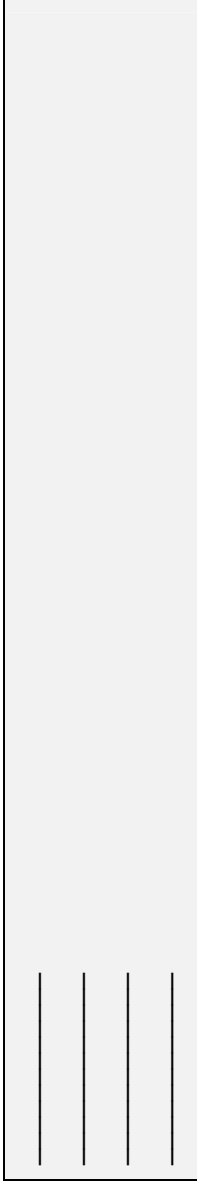


**Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)**

There is a mutual relationship between these groups or individuals and the company.

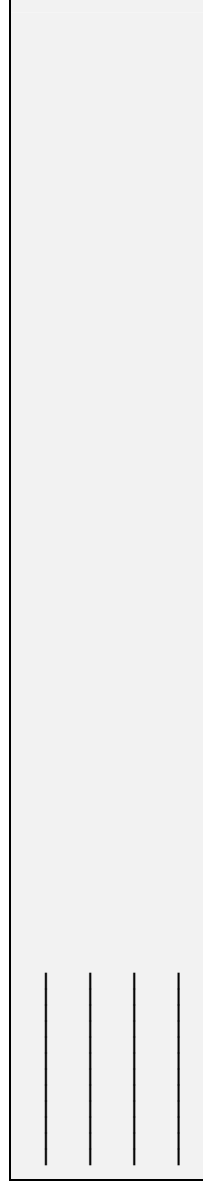
In what ways is the relationship between the company and these groups or individuals maintained?

What do they contribute and what do they expect from the company?



**The company's communication**

In what ways does the company communicate (written or spoken) with its social environment?





**Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2  
“ideal type generation”)**

What is the purpose of this communication?

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What do you think is most relevant for the businesses' social environment?

- To share common values with the business
- To identify with the business through a good image
- To be regularly included in businesses' decision-making processes
- The company's success
- Others:

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**Annex 2 (cont.): Guidelines for in-depth company interviews (in survey module 2 “ideal type generation”)**

**Personal**

1.1 Name	
1.2 Age	
5.3 Country	
5.6 Name of department	
5.14 Year of entry in organization	
5.15 Position	
5.16 Pls. describe your tasks	

Thank you very much for your valuable time!

Source: Own compilation

### Annex 3: Interview log file

<p>Interviewer: no.:</p> <p>Interviewee: Organisation: Designation: Location: City: Country: Date: Time: _____ to _____</p> <p>Interview duration:</p> <p>Other persons present:</p> <p>• got into contact how? Homepage <input type="checkbox"/> Email <input type="checkbox"/> Phone <input type="checkbox"/> reference from others <input type="checkbox"/></p> <p>Details:</p> <p>• general atmosphere:</p> <p>• shared level of communication? <input type="checkbox"/> y <input type="checkbox"/> n</p> <p>• misunderstandings: <input type="checkbox"/> y <input type="checkbox"/> n</p> <p>which ones:</p> <p>• style of communication: <input type="checkbox"/> professional <input type="checkbox"/> casual style <input type="checkbox"/> academic</p> <p>• degree of consent to project: <input type="checkbox"/> high <input type="checkbox"/> rather high <input type="checkbox"/> indifferent <input type="checkbox"/> rather low <input type="checkbox"/> low</p> <p>• degree of perceived own involvement: <input type="checkbox"/> high <input type="checkbox"/> rather high <input type="checkbox"/> indifferent <input type="checkbox"/> rather low <input type="checkbox"/> low</p> <p>• attitude towards project: <input type="checkbox"/> enthusiastic <input type="checkbox"/> benevolent <input type="checkbox"/> professional/neutral <input type="checkbox"/> indifferent <input type="checkbox"/> skeptical <input type="checkbox"/> declining <input type="checkbox"/> negative</p> <p>• participant wishes to check transcripts for authorisation? <input type="checkbox"/> y <input type="checkbox"/> n</p> <p>• open to follow-up <input type="checkbox"/> y <input type="checkbox"/> n</p> <p>• interested in results <input type="checkbox"/> y <input type="checkbox"/> n</p> <p>• further comments:</p>
Source: Own compilation

#### **Annex 4: Social standards in the global value chains: Two exemplary narratives**

“Carmelita Alonzo was a seamstress in the factory V.T. [in Cavite, the largest free trade zone of the Philippines] that produces garments for GAP, Liz Clayborne and other brands. Carmelita Alonzo died after a long series of night shifts during an extraordinarily busy high season. [...] Carmelita Alonzo not only had to work night shifts, she also had a two-hours walkway home to her family. She suffered from pneumonia – a very common disease in the factory plant that is stuffy and hot during the day and cool and clammy at night – and had asked her superior to take sick-leave. He had declined. [...] She died on 8 March, the International Women’s Day“ (Klein 2002, 227; translation jw).

“The night she died, Li Chunmei must have been very exhausted. Colleagues reported she had been working 16 hours carrying items from one machine to the other in the Bainan toy company. It had been high-season before Christmas and the orders from Japan and the USA for the toy animals the company produces hit a peak. The company had called for overtime, and it had already been two months since Li and the other workers had had a single Sunday off work. [...] Her room mates were already asleep when Li began to cough up blood. They found her a few hours later on the bathroom floor. She cried quietly in the dark and blood ran from her mouth and nose. She died even before the ambulance arrived. While the exact cause of Li’s death is unknown, family, friends and colleagues think her fate is an example of ‘guolaosi’, a term used by China’s most unflinching media. The term stands for death from overwork and is commonly used for young female workers who collapse and die after having worked excessive hours every day” (Weikert 2003, 7, translation jw).

**Annex 5: Websites of cases**

Sinopec	<a href="http://english.sinopec.com/">http://english.sinopec.com/</a>
BACL	–
YGM	<a href="http://www.ygm.com.hk">http://www.ygm.com.hk</a>
Foxconn	<a href="http://www.foxconnchannel.com/DE-DE/about/CorpIntro.aspx">http://www.foxconnchannel.com/DE-DE/about/CorpIntro.aspx</a>
Lenovo	<a href="http://www.lenovo.com/">http://www.lenovo.com/</a>
Zhejiang Huayou	<a href="http://www.huayou.com">http://www.huayou.com</a>
Chalco	<a href="http://www.chalco.com.cn">http://www.chalco.com.cn</a>
Source: Own compilation	

## Annex 6: Code list (by code families)

<p>HU: Diss ABD Weikert            File:            C:\Dokumente und Einstellungen\DIE24\Eigene            Dateien\Scientific Software\ATLASTi...\Diss ABD            Weikert.hpr5            Edited by: Super            Date/Time: 04.11.08 17:55:01</p> <hr/> <p>Code Family: Asian Business Drivers            Created: 26.08.08 17:22:21 (Super)            Codes (7):            ABD: bargaining power            ABD: cases            ABD: engagement for Olympia            ABD: features of Asian Business Driver            ABD: M&amp;A            ABD: mention, examples            ABD: SOE            Quotation(s): 59</p> <hr/> <p>Code Family: Expose            Created: 26.08.08 15:03:21 (Super)            Comment:            TERM: ("Variation"   "impact")            Codes (5):            business legitimacy            China is a developing country            Pr: impact: item            there's no variation            there is a variation!            Quotation(s): 12</p> <hr/> <p>Code Family: Pr: Tibet crisis            Created: 03.09.08 11:47:51 (Super)            Codes (1):            mention of Tibet crisis            Quotation(s): 2</p> <hr/> <p>Code Family: Pr: drivers for CSR in China            Created: 26.08.08 11:24:31 (Admin)            Codes (20):            P: Drivers input prizes            P: drivers: hurdles            P: s/h "man on the street"            P: s/h business community            P: s/h central govt.            P: s/h customers            P: s/h employees            P: s/h financial comm            P: s/h government            P: s/h int. orgs            P: s/h local govt            P: s/h Media            P: s/h suppliers            P: s/h think tanks/univ.            P: s/h: NGOs            P: s/h: trade unions            Pr: drivers: China - Africa econ. relations            Pr: drivers: coporate scandals            Pr: drivers: response to trans-nationalised s/h            Pr: drivers: supply chain            Quotation(s): 154</p> <hr/>	<p>Code Family: Pr: dynamics of mutual integration A-O            Created: 26.08.08 11:24:51 (Admin)            Codes (4):            Pr: dynamics            Pr: dynamics: intern. division of labour            Pr: dynamics: SAB000 impact            Pr: dynamics: SAI - CSC history            Quotation(s): 25</p> <hr/> <p>Code Family: Pr: impact            Created: 26.08.08 15:02:48 (Super)            Codes (1):            Pr: impact: item            Quotation(s): 0</p> <hr/> <p>Code Family: Pr: integration in OECD world continues            Created: 29.08.08 18:00:26 (Super)            Codes (3):            access to OECD world            China has to learn to operate in regulative env. in the global sphere            OECD standards            Quotation(s): 10</p> <hr/> <p>Code Family: Pr: Olympics            Created: 03.09.08 15:32:58 (Super)            Codes (1):            impact of Olympics            Quotation(s): 2</p> <hr/> <p>Code Family: Pr: opening up policies            Created: 04.09.08 16:47:43 (Super)            Codes (1):            Pr: drivers: opening up policies            Quotation(s): 9</p> <hr/> <p>Code Family: Pr: rapid and ubiquitous institutional innovation            Created: 26.08.08 11:24:04 (Admin)            Codes (4):            Pr: drivers: chin. stakeholders begin to claim stake            Pr: dynamics fast-learning / catching up            Pr: dynamics: evolution of NGOs            Pr: drivers: institutional innovation            Quotation(s): 15</p> <hr/> <p>Code Family: Pr: reflexive self-perception of Chinese            Created: 04.09.08 16:40:33 (Super)            Codes (1):            Pr: item of reflexive self-perception            Quotation(s): 8</p> <hr/>
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## Annex 6 (cont.): Code list (by code families)

Code Family: Pr: Szechuan Earthquake  
 Created: 26.08.08 11:23:52 (Admin)  
 Codes (3):  
 Corporate Donations  
 mention of sichuan earthquake  
 Pr: sz earthquake: foreign companies  
 Quotation(s): 6

Code Family: Process Analysis  
 Created: 04.11.08 15:43:59 (Super)

Codes (23):  
 Pr: drivers: chinese government  
 pr: drivers: chin. netizens  
 Pr: drivers: chin. stakeholders begin to claim stake  
 Pr: drivers: China - Africa econ. relations  
 Pr: Drivers: competition  
 Pr: drivers: coporate scandals  
 Pr: drivers: maintain stability  
 Pr: drivers: opening up policies  
 Pr: drivers: response to trans-nationalised s/h  
 Pr: drivers: supply chain  
 Pr: dynamics  
 Pr: dynamics fast-learning / catching up  
 Pr: dynamics old driver -new driver  
 Pr: dynamics: evolution of NGOs  
 Pr: dynamics: evolution of private bus.  
 Pr: dynamics: intern. division of labour  
 Pr: dynamics: SAB000 impact  
 Pr: dynamics: SAI - CSC history  
 Pr: impact: item  
 Pr: item of reflexive self-perception  
 Pr: SOEs  
 Pr: sz earthquake: foreign companies  
 Pr:drivers: institutional innovation  
 Quotation(s): 88

Code Family: Sub-Concepts of Business Legitimacy  
 Created: 26.08.08 11:39:31 (Admin)

Comment:  
 TERM: (((("1. Role Model" | "2. Ideational Stakeholder Inclusion") | "3. Procedural Stakeholder Inclusion") | "4. Output") | "5. other sub-concept of business legitimacy")

Codes (88):  
 I: charismatic brand  
 I: charismatic leadership  
 I: founding myths  
 I: image-> customers  
 I: image of responsibility  
 I: ownership  
 I: qu. 3.3 To identify with the business through a good image  
 I: reputation -> other S/h  
 I: rise of chinese brands Asian business Drivers  
 I: rise of chinese brands SOE  
 I: rise of chinese brands stay at home giants  
 I: trust (as coordination mech.)  
 O: awards  
 O: career  
 O: costs of success  
 O: do no harm  
 O: economic output  
 O: efficiency  
 O: employment  
 O: env. output  
 O: for the country/society  
 O: innovation  
 O: investment  
 O: Philantropy  
 O: qu 3.3 success

O: quality  
 O: shareholder value  
 O: size  
 O: stakeholder value  
 O: taxes  
 P: Drivers input prizes  
 P: departure from national setting  
 P: drivers: hurdles  
 P: JV  
 P: network of S/hs view bus  
 P: procedures: outside communication  
 P: procedures: customer audits  
 P: procedures: engagement of action with stakeholders  
 P: procedures: formal / contractual  
 P: procedures: inside communication  
 P: procedures: internal meetings  
 P: procedures: key accounts  
 P: procedures: reciprocity  
 P: procedures: reporting  
 P: procedures: stakeholder meetings  
 P: procedures: stock market listing  
 P: qu 3.3. s/h inclusion in decisions  
 P: s/h "man on the street"  
 P: s/h business association  
 P: s/h business community  
 P: s/h central govt.  
 P: s/h chin. netizens  
 P: s/h consultants  
 P: s/h customers  
 P: s/h employees  
 P: s/h financial comm  
 P: s/h government  
 P: s/h int. orgs  
 P: s/h local community  
 P: s/h local govt  
 P: s/h Media  
 P: s/h suppliers  
 P: s/h think tanks/univ.  
 P: s/h, consumers  
 P: s/h: NGOs  
 P: s/h: trade unions  
 P: SOEs  
 R: hard work ethics  
 R: Harmonious Society  
 R: HS <-> SD  
 R: other role model  
 R: qu. 3.3 to share common values  
 R: ref to Confucianism  
 R: ref. Philantropy  
 R: ref. Taoism  
 R: ref. to Buddhism  
 R: ref. to Christianity  
 R: ref. to communist China  
 R: ref. to good merchant  
 R: ref. to patriotism  
 R: role model development is underway  
 R: role model, function, conception of  
 R: role model, open for interpretation  
 R: role models have to have chin. looks+smells!  
 R: Scientific/Technological Development  
 R: sustainable development  
 R: Zheng He/Dong Ke->peaceful globalisation  
 V 5 other  
 Quotation(s): 329

Code Family: V 1. Role Model  
 Created: 26.08.08 11:10:35 (Admin)

Codes (20):  
 R: hard work ethics  
 R: Harmonious Society  
 R: HS <-> SD  
 R: other role model

## Annex 6 (cont.): Code list (by code families)

<p>R: qu. 3.3 to share common values  R: ref to Confucianism  R: ref. Philantropy  R: ref. Taoism  R: ref. to Buddhism  R: ref. to Christianity  R: ref. to communist China  R: ref. to good merchant  R: ref. to patriotism  R: role model development is underway  R: role model, function, conception of  R: role model, open for interpretation  R: role models have to have chin. looks+smells!  R: Scientific/Technological Development  R: sustainable development  R: Zheng He/Dong Ke-&gt;peaceful globalisation  Quotation(s): 70</p> <hr/> <p>Code Family: V 2. Ideational Stakeholder Inclusion  Created: 26.08.08 11:10:54 (Admin)  Comment:  normative inclusion  Codes (12):  I: charismatic brand  I: charismatic leadership  I: founding myths  I: image-&gt; customers  I: image of responsibility  I: ownership  I: qu. 3.3 To identify with the business through a good image  I: reputation -&gt; other S/h  I: rise of chinese brands Asian business Drivers  I: rise of chinese brands SOE  I: rise of chinese brands stay at home giants  I: trust (as coordination mech.)  Quotation(s): 43</p> <hr/> <p>Code Family: V 3. Procedural Stakeholder Inclusion  Created: 26.08.08 11:11:23 (Admin)  Codes (37):  P: Drivers input prizes  P: departure from national setting  P: drivers: hurdles  P: JV  P: network of S/h's view bus  P: procedures outside communication  P: procedures: customer audits  P: procedures: engagement of action with stakeholders  P: procedures: formal / contractual  P: procedures: inside communication  P: procedures: internal meetings  P: procedures: key accounts  P: procedures: reciprocity  P: procedures: reporting  P: procedures: stakeholder meetings  P: procedures: stock market listing  P: qu 3.3. s/h inclusion in decisions  P: s/h "man on the street"  P: s/h business association  P: s/h business community  P: s/h central govt.  P: s/h chin. netizens  P: s/h consultants  P: s/h customers  P: s/h employees  P: s/h financial comm  P: s/h government  P: s/h int. orgs  P: s/h local community</p>	<p>P: s/h local govt  P: s/h Media  P: s/h suppliers  P: s/h think tanks/univ.  P: s/h. consumers  P: s/h: NGOs  P: s/h: trade unions  P: SOEs  Quotation(s): 188</p> <hr/> <p>Code Family: V 4. Output  Created: 26.08.08 11:11:35 (Admin)  Codes (18):  O: awards  O: career  O: costs of success  O: do no harm  O: economic output  O: efficiency  O: employment  O: env. output  O: for the country/society  O: innovation  O: investment  O: Philantropy  O: qu 3.3 success  O: quality  O: shareholder value  O: size  O: stakeholder value  O: taxes  Quotation(s): 58</p> <hr/> <p>Code Family: V 5. other sub-concept of business legitimacy  Created: 26.08.08 11:11:55 (Admin)  Codes (1):  V 5 other  Quotation(s): 2</p> <hr/> <p>Code Family: V OECD Guidelines  Created: 02.09.08 11:32:29 (Super)  Codes (4):  OECD GL, history of  OECD GL, mention of  OECD GL, no idea  OECD GL, value base  Quotation(s): 19</p> <hr/> <p>Code Family: Variation  Created: 26.08.08 15:02:28 (Super)  Codes (4):  business legitimacy  China is a developing country  there's no variation  there is a variation!  Quotation(s): 12</p>
<p>Source: Own compilation</p>	



## Annex 7: Processing steps of defining the scales for empirical module 2

<p>In order to define scales to be used in the analysis of the Asian Business Driver's legitimisation patterns in empirical module 2, a few simple process steps are undertaken to be able to set up the measuring instrument for 'business legitimacy'.</p> <p><b>1. Using the results of empirical module 1 – the “discourse type of A”</b></p> <p>The results of empirical module 1 provide insights into a 'variety of legitimising business' according to the domestic Chinese discourse. This variety can be described as such:</p>	
<p>Business policies</p> <ul style="list-style-type: none"> <li>– stressing aspects of harmony</li> <li>– stressing features of competitiveness of globalising Chinese companies</li> <li>– inference from genuinely Chinese cultural and historical elements</li> </ul>	<p>Stakeholder networks</p> <ul style="list-style-type: none"> <li>– responding to new regulation</li> <li>– responding to domestic institutional arrangements and innovation</li> <li>– responding to increasing domestic non-market stakeholder activism</li> </ul>
<p>These results constitute the “discourse type” of the (A) type (dt A).</p> <p><b>2. Validation in empirical module 2 data</b></p> <p>In order to validate the “discourse type of (A)”, the empirical data for empirical module 2 is being reverted to: The variables R,I,P,O are first cross-referenced with the empirical data. A ranking emerges. The top third of the ranked code family tables are deemed most relevant. It makes little difference here, if the tables are ranked according to occurrence of the codes in the 'case' sub-group of documents or according to the total occurrence, as the two rankings strongly correlate to each other (role</p>	

## Annex 7 (cont.): Processing steps of defining the scales for empirical module 2

model: 0,77; ideational inclusion of stakeholders: 0,96; procedural inclusion of stakeholder: 0,88; output legitimacy: 0,95, according to Spear Spearman's Ranking Correlation  $r_s = 1 - \frac{\sum(\text{rank case} - \text{rank total})^2}{N^3(N^2 - 1)}$ ; Benninghaus 1992:176).

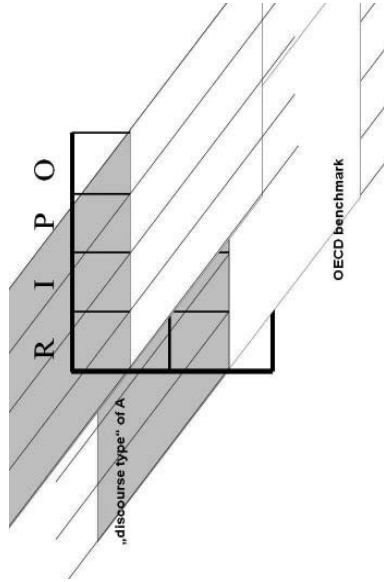
When looking at the frequency of occurrence, it is important to note, that within a qualitative research programme, these do not bear significance as such; one single clue in the data might well provide the key for a whole new chain of arguments. For heuristic reasons, however, it is well worth-noting that particular actors refer to particular concepts more frequently than do others. Nevertheless, a cross-check with rest of codes (middle and bottom third of the ranking) is conducted.

### 3. OECD benchmark

The OECD points of reference ('O-values') have been identified before with the OECD Guidelines for Multinational Enterprises (OECD 2000) and the GRI guidelines (GRI 2006) as proxies (see chapter 3.1.3).

With the help of the 'discourse type of A' values and the OECD benchmarks as extreme points, ultimately, scales (scale modes, values and threshold values), along which 'variation' or 'accordance' becomes measurable, can be defined (see chapter 5.3.1).

Does the Asian Business Drivers' acquisition and retention of legitimacy vary significantly from the OECD businesses? Using these scales, this research question can be worked out.



Source: Own compilation

**Annex 8: Data sheets: generation of (A) types**

State-Owned Multinational Enterprises					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
		dt-A conformity: dt A role model mentioned (value =1) (dt A) role model (predominant) and (O) role model mentioned (value 0.75) indifference: no mention of any, or mention of both role models (value 0.5) (dt A) role model and (O) role model (predominant) mentioned (value 0.25)	0,25	4 mentions "harmonious society" in chairman's note, 6 other incidences in report  people-oriented employee principles  scientific development  the term "harmonious development" can actually raise Chinese people's understanding  sustainability context according to GRI  But: 35 mentions of sustainability	Sinopec 2007  Sinopec 2007:4  Sinopec 2007:4  A0401/44  Sinopec 2007:28  Sinopec 2007
role model	role model communication				

**Annex 8 (cont.): Data sheets: generation of (A) types**

State-Owned Multinational Enterprises						
element of business legitimacy	operation-alisation	value definition	value	evidence	quote	
role model	association with related moral authorities, institutions	(dt A) conformity: (dt A) moral authority mentioned (value 1)  (dt A) moral authority (predominant) and (O) moral authority mentioned (value 0.75)  indifference: no mention of any, or mention of both moral authorities (value 0.5)  (dt A) moral authority and (O) moral authority (predominant) mentioned (value 0.25)  <b>(O) conformity: (O) moral authority mentioned (value 0)</b>		In 1996, joined the WBCSD as its first Chinese council member.  established the CBCSD  Global Compact mentioned various times	Sinopec 2007:5  Sinopec 2006:4, Sinopec 2007:5  Sinopec 2007:3; Sinopec 2006:4	
	<b>overall value (arithmetic mean)</b>		<b>0,125</b>	<b>ideal type</b>	<b>r</b>	

**Annex 8 (cont.): Data sheets: generation of (A) types**

State-Owned Multinational Enterprises					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>	<b>image</b>	<p><b>(dt A) conformity: national framework, philanthropy (value 1)</b></p> <p>national framework (predominant), core business case, or transnational frame and philanthropy (predominant) (value 0.75)</p> <p>indifference: no brand value being built up (value 0.5)</p> <p>national framework, core business case (predominant) OR: transnational frame (predominant) and philanthropy (value 0.25)</p> <p>(O) conformity: trans-national framework, core business case (value 0)</p>	<b>1</b>	<p>Sichuan Earthquake, South-China weather disaster, Chun Lei school girls programme, Health Express, Tibet projects – all national level, all philanthropic approach</p> <p>Olympics: "help Beijing to host the Games"</p> <p>core business case is not to be found</p>	<p>Sinopec 2007.4, 25</p> <p>Sinopec 2007:27</p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

State-Owned Multinational Enterprises						
element of business legitimacy	operation-alisation	value definition	value	evidence	quote	
<b>ideational stakeholder inclusion</b>	<b>reputation</b>	<b>(dt A) conformity: national framework, philanthropy (value 1)</b> national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)	<b>1</b>	[dito]		
		indifference: no brand value being built up (value 0.5) national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25) (O) conformity: transnational framework, core business case (value 0)				
<b>overall value (arithmetic mean)</b>			<b>1</b>	<b>ideal type</b>		<b>I</b>



**Annex 8 (cont.): Data sheets: generation of (A) types**

State-Owned Multinational Enterprises					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
procedural stakeholder inclusion	dominance of particular stakeholders	(dt A) conformity: governmental stakeholders clearly dominant (value 1)	0,75	even though the Chinese Govt. is at times conceptualised as one among many stakeholders, it is the clearly the dominant one, for a) ownership of 75% and b) socio-political tasks assigned to them: "we fulfilled our social responsibility ... to ensure sufficient supply ... thus contributed to the stable and rapid economic and social development in China.	Sinopec 2006:7 Sinopec 2007:6 Sinopec2007a:7 Sinopec 2007:3
		governmental stakeholders dominant, others important (value 0.75)  indifference: no dominance (value 0.5)  shareholders dominant, others important (value 0.25)  (O) conformity: stakeholders clearly dominant (value 0)			
overall value (arithmetic mean)			0.375	ideal type	p



**Annex 8 (cont.): Data sheets: generation of (A) types**

State-Owned Multinational Enterprises						
element of business legitimacy	operation-alisation	value definition	value	evidence	quote	
output legitimacy	‘soft competitiveness’/ reference to competitiveness awards reported or social and environmental output reported	(dt A) conformity: mention of competitiveness awards, no mention of social and environmental output (value 1)		7 different Chinese awards mentioned, but no longer in 2007	Sinopec 2006: 11	
		mention of both, emphasis on competitiveness awards (value 0.75)		1 environmental award mentioned in 2007	Sinopec 2007: 16	
		indifference: no mention of any form of output (value 0.5)		env. Output: discharges, freshwater consumption;	Sinopec 2006: 16 Sinopec 2007: 17	
		<b>mention of both, emphasis on social and environmental output (value 0.25)</b>	<b>0.25</b>	helping society and local communities	Sinopec 2007: 19	
	<b>overall value</b>		<b>0.25</b>	<b>ideal type</b>	<b>0</b>	

**Annex 8 (cont.): Data sheets: generation of (A) types**

Private Business Pioneers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>role model</b>	<b>role model communication</b>	<p>(dt A) conformity: (dt A) role model mentioned (value =1)</p> <p>(dt A) role model (predominant) and (O) role model mentioned (value 0.75)</p> <p>indifference: no mention of any, or mention of both role models (value 0.5)</p> <p>(dt A) role model and (O) role model (predominant) mentioned (value 0.25)</p> <p>O conformity: O role model mentioned (value =0)</p>	0	<p>no mention of sustainable development in any case;</p> <p>customer care is a company culture and a way of life;</p> <p>emphasis on safety, quality, efficiency;</p> <p>harmonious society is important for Chinese companies;</p> <p>HS as a concept with global aptitude;</p> <p>HS expedient as concept behind CSR;</p> <p>responsiveness to Confucian values;</p> <p>reference to Buddhism;</p> <p>strong references to patriotism;</p> <p>hard work ethics</p>	<p>A0103/164 A0103/66</p> <p>A0601/65 A0601/67</p> <p>A0304/24 A0304/A0301various; A0304/A0301various A0102/28ff; A0101/20 A0102/14, A01/12</p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

<b>Private Business Pioneers</b>					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>role model</b>	<b>association with related moral authorities, institutions</b>	<b>(dt A) conformity: (dt A) moral authority mentioned (value 1)</b>	<b>1</b>	Hu Jintao; Buddhist sources: 因缘; CCP, membership of both cases' managers in (local and even central) CPPCC	A0304/24 A0301/17 A0305/24; A01/15
		(dt A) moral authority (predominant) <i>and</i> (O) moral authority mentioned (value 0.75) indifference: no mention of any, or mention of both moral authorities (value 0.5) (dt A) moral authority <i>and</i> (O) moral authority (predominant) mentioned (value 0.25) (O) conformity: (O) moral authority mentioned (value 0)	<b>1</b>		
<b>overall value (arithmetic mean)</b>			<b>1</b>		

**Annex 8 (cont.): Data sheets: generation of (A) types**

Private Business Pioneers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>		<p><b>(dt A) conformity: national framework, philanthropy (value 1)</b></p> <p>national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)</p> <p>indifference: no brand value being built up (value 0.5)</p> <p>national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25)</p> <p>(O) conformity: transnational framework, core business case (value 0)</p>	<b>1</b>	<p>philanthropic activity in national framework, mostly related to Sichuan Earthquake of May 2008 or philanthropic activities of the founders of the businesses (mostly educational);</p> <p>no business case visible; trust relationships with few key stakeholders replace image/brand value for the generalised stakeholders</p>	<p>various sources across the PBP family, A01, A03 and A06 documents</p> <p>A0601; A0304; A0305</p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

<b>Private Business Pioneers</b>					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>		<p><b>(dt A) conformity: national framework, philanthropy (value 1)</b></p> <p>national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)</p> <p>indifference: no brand value being built up (value 0.5)</p> <p>national framework, core business case (predominant)</p> <p>OR: transnational framework (predominant) and philanthropy (value 0.25)</p> <p>(O) conformity: transnational framework, core business case (value 0)</p>	<b>1</b>	<p>charismatic leadership in order to build up trust relationship, mostly found through philanthropic activity in the national frame of reference;</p> <p>features of Chinese 'network capitalism'</p>	<p>various sources across the PBP family, A01, A03 and A06 documents</p>
		<b>overall value (arithmetic mean)</b>	<b>1</b>	<b>ideal type</b>	<b>I</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

Private Business Pioneers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>procedural stakeholder inclusion</b>	<b>range of acknowledged stake-holders</b>	(dt A) conformity: few (1-3) stakeholders are mentioned (value 1)  <b>indifference: a medium range of stakeholders (3-6) are mentioned (value 0.5)</b>  (O) conformity: multiple stakeholders (>6) are mentioned (value 0)	<b>0.5</b>	besides governmental stakeholders, only customers, suppliers, and employees play a significant role	various sources across the PBP family, A01, A03 and A06 documents

**Annex 8 (cont.): Data sheets: generation of (A) types**

<b>Private Business Pioneers</b>					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>procedural stakeholder inclusion</b>	<b>dominance of particular stake-holders</b>	<p><b>(dt A) conformity: governmental stakeholders clearly dominant (value 1)</b></p> <p>governmental stakeholders dominant, others important (value 0.75)</p> <p>indifference: no dominance (value 0.5)</p> <p>shareholders dominant, others important (value 0.25)</p> <p>(O) conformity: stakeholders clearly dominant (value 0)</p>	<b>1</b>	<p>membership of both cases' managers in (local and even central) CPPCC;</p> <p>clear dominance of relationships to local government (various offices and branches), relationships to central governments as top management's concern;</p> <p>Political contingency of Joint Ventures</p>	<p>A0305/24; A01/15</p> <p>across all PBP family; A0304/125</p>
	<b>overall value (arithmetic mean)</b>		<b>0.75</b>	<b>ideal type</b>	<b>P</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

Private Business Pioneers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
output legitimacy	‘soft competitiveness’/ reference to competitiveness awards reported or social and environmental output reported	(dt A) conformity: mention of competitiveness awards, no mention of social and environmental output (value 1) mention of both, emphasis on competitiveness awards (value 0.75) indifference: no mention of any form of output (value 0.5)	<b>0.75</b>	Stress on profit Awards that acknowledge achievements in competitiveness, quality, efficiency are highly important; Chain of arguments: hard work – survival – economic output – coincide with local economic dev. – recognition through awards; env. output plays a negligible role; social output plays a role in terms of employment, sometimes in terms of a kind of stakeholder value	A0305/12, various others BACL brochure:section4; A0103/149; A0601/39; A0305/15 various sources across the PBP family, A01, A03 and A06 documents  A0601/37; A0601/42  A0601/32/70; A0601/63; A0304/12; A0305/149
		(O) conformity: mention of social and environmental output, no mention competitiveness awards (value 0)			
<b>overall value</b>			<b>0.75</b>		



**Annex 8 (cont.): Data sheets: generation of (A) types**

Supply-End Drivers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>role model</b>	<b>role model communication</b>	<p>dt A conformity: dt A role model mentioned (value =1)</p> <p>(dt A) role model (predominant) <i>and</i> (O) role model mentioned (value 0.75)</p> <p>indifference: no mention of any, or mention of both role models (value 0.5)</p> <p><b>(dt A) role model <i>and</i> (O) role model (predominant) mentioned (value 0.25)</b></p> <p>O conformity: O role model mentioned (value =0)</p>	<b>0.25</b>	<p>joined the EICC code of conduct, which had been established by its customers HP, Dell, IBM, Cisco</p> <p>dt A role model ('Harmonious Society') is only mentioned in the documentation of the government driven settlement of the First Financial Daily law-suit</p>	<p><a href="http://www.foxconn.com/Policy_3.html">http://www.foxconn.com/Policy_3.html</a></p> <p><a href="http://news.xinhuanet.com/fortune/2006-09/03/content_5042764.htm">http://news.xinhuanet.com/fortune/2006-09/03/content_5042764.htm</a></p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

Supply-End Drivers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>role model</b>	<b>association with related moral authorities, institutions</b>	(dt A) conformity: (dt A) moral authority mentioned (value 1)			<p>http://www.foxconn.com/ser/061110602.htm</p>
		(dt A) moral authority (predominant) <i>and</i> (O) moral authority mentioned (value 0.75)		<p>references to EICC which references to OECD GL and SA 8000, UNGC, ILO.</p> <p>no reference to dt.A moral authority/institution</p>	
		indifference: no mention of any, or mention of both moral authorities (value 0.5)			
		(dt A) moral authority <i>and</i> (O) moral authority (predominant) mentioned (value 0.25)			
		<b>(O) conformity: (O) moral authority mentioned (value 0)</b>	<b>0</b>		
	<b>overall value (arithmetic mean)</b>		<b>0.125</b>	<b>ideal type</b>	<b>r</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

Supply-End Drivers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>idea-tional stakeholder inclusion</b>	<b>image</b>	(dt A) conformity: national framework, philanthropy (value 1) national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75) indifference: no brand value being built up (value 0.5) <b>national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25)</b> (O) conformity: transnational framework, core business case (value 0)	<b>0.25</b>	only customer-oriented image building, no brand image building  national framework philanthropy mentioned: "recognised as the second largest givers for social cause in Mainland China"  Neither Beijing nor Taipei government does encourage philanthropic activities!	<a href="http://www.foxconn.com/ser/06110602.htm">http://www.foxconn.com/ser/06110602.htm</a>  A0201/116

**Annex 8 (cont.): Data sheets: generation of (A) types**

Supply-End Drivers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>idea-tional stakeholder inclusion</b>		(dt A) conformity: national framework, philanthropy (value 1) national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75) indifference: no brand value being built up (value 0.5)		so Foxconn wants to have this very good reputation among international companies. Actually Foxconn is not a brand. Foxconn is doing very small standard stuff. Everybody knows how to make that. But the tricky thing is how to make those quick and precise -- Foxconn can. And I think that is their reputation. They are fast and reliable.	A0202/76  A0202/77
	<b>reputation</b>	<b>national framework, core business case (predominant)</b> <b>OR: transnational framework (predominant) and philanthropy (value 0.25)</b> (O) conformity: transnational framework, core business case (value 0)	<b>0.25</b>	"socket for Pentium 4 central processing units. It's not as important, maybe, as the CPU. But each CPU needs a socket. To ship 5 million units -- with no quality problems -- that's not an easy job. Quality is easy to talk but hard to make.	CEO Guo: <a href="http://www.businessweek.com/magazine/content/02_27/b3790617.htm">http://www.businessweek.com/magazine/content/02_27/b3790617.htm</a>
<b>overall value (arithmetic mean)</b>			<b>0.25</b>	<b>ideal type</b>	<b>i</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

Supply-End Drivers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>procedural stakeholder inclusion</b>	<b>range of acknowledged stakeholders</b>	<p><b>(dt A) conformity: few (1-3) stakeholders are mentioned (value 1)</b></p> <p>indifference: a medium range stakeholders (3-6) are mentioned (value 0.5)</p> <p>(O) conformity: multiple stakeholders (&gt;6) are mentioned (value 0)</p>	<b>1</b>	<p>few stakeholders (employees, local communities and government) are mentioned in communication.</p> <p>customers are the central stakeholder</p> <p>only accept comments from the government, the judges, buyers. Beside these three groups, they do not accept any criticism.</p>	<p>-&gt; see the difficult media relations, journalist lawsuits</p> <p>P18/115</p> <p>A0202/66</p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

Supply-End Drivers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>procedural stakeholder inclusion</b>	<b>dominance of particular stakeholders</b>	(dt A) conformity: governmental stakeholders clearly dominant (value 1)  governmental stakeholders dominant, others important (value 0.75)  <b>indifference: no dominance (value 0.5)</b>  shareholders dominant, others important (value 0.25)	<b>0.5</b>	neither government nor shareholders - the corporate customers are key and dominant stakeholders  does not want to do CSR, communicate, do not invite journalists cannot get too close to the Chinese govt.;  politically: if they're too close to mainland, there will be problems with TW govt; economically: majority of customers are not Chinese anyway	various A0201/0202          E19/32
		(O) conformity: stakeholders clearly dominant (value 0)			
		<b>overall value (arithmetic mean)</b>			

**Annex 8 (cont.): Data sheets: generation of (A) types**

<b>Supply-End Drivers</b>					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>output legitimacy</b>	‘soft competitiveness’/ reference to competitiveness awards reported or social and environmental output reported	(dt A) conformity: mention of competitiveness awards, no mention of social and environmental output (value 1) mention of both, emphasis on competitiveness awards (value 0.75) indifference: no mention of any form of output (value 0.5) <b>mention of both, emphasis on social and environmental output (value 0.25)</b> (O) conformity: mention of social and environmental output, no mention competitiveness awards (value 0)	<b>0.25</b>	Environmental output is part of the policies of "SER"; adheres to the (OECD-based) EICC approach;  Economic output (efficiency) may still be the main form of output legitimacy, but not directed towards an alliance with local governments' strategies but towards customers; awards are mentioned, but these are solely non-Chinese customer awards/consumer ratings	<a href="http://www.foxconn.com/Policy_3.html">http://www.foxconn.com/Policy_3.html</a>  <a href="http://www.channel.foxconn.com/about/awards.aspx">http://www.channel.foxconn.com/about/awards.aspx</a>
	<b>overall value</b>		<b>0.25</b>	<b>ideal type</b>	<b>0</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
		dt A) conformity: (dt A) role model mentioned (value =1) (dt A) role model (predominant) <i>and</i> (O) role model mentioned (value 0.75) indifference: no mention of any, or mention of both role models (value 0.5) (dt A) role model <i>and</i> (O) role model (predominant) mentioned (value 0.25) O conformity: O role model mentioned (value =0)		CEO delivers own interpretation of O role model sustainability: "Is the world better off because Lenovo exists?" However, it is going beyond interpretation by developing a new role model: New World-New Thinking, a "New World Company" references to harmony, harmonious society are nowhere to be found EXTENSION OF SCALE: own role model definition beyond O (value = -0.25)	Lenovo 2007:4  Lenovo 2007:4 A0801/58,61,66,84 website
<b>Role model</b>	<b>Role model communication</b>		<b>-0.25</b>		



**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>role model</b>	<b>association with related moral authorities, institutions</b>	(dt A) conformity: (dt A) moral authority mentioned (value 1)		reference to GRI in its report role model by own authority and charisma: Yang	Lenovo 2007:55 A0801/66
		(dt A) moral authority (predominant) <i>and</i> (O) moral authority mentioned (value 0.75)			
		indifference: no mention of any, or mention of both moral authorities (value 0.5)		EXTENSION OF SCALE: own role model referenced by own interpretative authority, in accordance with O, but beyond! (value=-0,25)	
		(dt A) moral authority <i>and</i> (O) moral authority (predominant) mentioned (value 0.25)			
		(O) conformity: (O) moral authority mentioned (value 0)	<b>-0.25</b>		
<b>overall value (arithmetic mean)</b>			<b>-0.25</b>	<b>ideal type</b>	<b>r*</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>		<p>(dt. A) conformity: national framework, philanthropy (value 1)</p> <p>national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)</p> <p>indifference: no brand value being built up (value 0.5)</p> <p>national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25)</p> <p><b>(O) conformity: transnational framework, core business case (value 0)</b></p>	0	<p>accentuated branding operations: from "Legend" to "Lenovo" – "to-reflect the spirit of innovation at the core of the Company" – to the acquisition of the brand names ThinkPad and ThinkCentre, Sponsorship of IT to F1 AT&amp;T Williams team philanthropic activity follows core business: IT provision for "Ronald McDonald Houses, Olympic Games</p> <p>Allan Houston/Lenovo Small Business incubators</p> <p>philanthropic activity follows transnational positioning: Katrina, SE Asia Tsunami, Olympics Torino and Beijing</p>	<p>Lenovo 2007:7 A0801/78</p> <p>website A0801/108</p> <p>Lenovo 2007:33</p> <p>Lenovo 2007:34</p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>		(dt. A) conformity: national framework, philanthropy (value 1) national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75) indifference: no brand value being built up (value 0.5)		applies to consumers as to other stakeholder groups, therefore equivalent	A0801/71 A0801/69,71
	<b>reputation</b>	national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25) <b>(O) conformity: transnational framework, core business case (value 0)</b>	<b>0</b>	reputation through charismatic leadership; and through founding myths: gatehouse start-up; LX-80	
<b>overall value (arithmetic mean)</b>			<b>0</b>	<b>idealt type</b>	<b>i</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>procedural stakeholder inclusion</b>	<b>range of acknowledged stakeholders</b>	(dt A) conformity: few (1-3) stakeholders are mentioned (value 1)  indifference: a medium range stakeholders (3-6) are mentioned (value 0.5)  <b>(O) conformity:</b> <b>multiple stakeholders (&gt;6) are mentioned (value 0)</b>	<b>0</b>	broad range of stakeholders (>6) mentioned	A0801 Lenovo 2007:44

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
procedural stakeholder inclusion	dominance of particular stakeholders	(dt A) conformity: governmental stakeholders clearly dominant (value 1)	<b>0.5</b>	National government is not dominant, Lenovo understands itself as a global company; in contrast, Yang is invited by government to be consultant;	A0801/83; A0801/87;
		governmental stakeholders dominant, others important (value 0.75)		Chinese Academy of Sciences as passive shareholder But: govt is majority owner, through Chinese Academy of Sciences	Kamp 2008b:10  A0802/28
<b>overall value (arithmetic mean)</b>			<b>0.25</b>	<b>ideal type</b>	<b>p</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Brand					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
output legitimacy	‘soft competitiveness’/ reference to competitiveness awards reported or social and environmental output reported	(dt A) conformity: mention of competitiveness awards, no mention of social and environmental output (value 1) mention of both, emphasis on competitiveness awards (value 0.75) indifference: no mention of any form of output (value 0.5)	<b>0.25</b>	Media awards and customer rankings are mentioned; corporate governance awards mentioned investor-related awards mentioned; emphasis on social and environmental output: - HR - social investments - global supply chain - waste mgt - Greenhouse Gas Emissions - Energy consumption - Water consumption - etc.	Lenovo 2007:8f Lenovo 2007:19 Lenovo 2007:21  Lenovo 2007:24 Lenovo 2007:33 Lenovo 2007:51 Lenovo 2007:43 Lenovo 2007a:14 Lenovo 2007a:17 Lenovo 2007a:20
		ment of both, emphasis on social and environmental output (value 0.25) (O) conformity: mention of social and environmental output, no mention competitiveness awards (value 0)			
overall value			<b>0.25</b>		

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
		(dt A) conformity: (dt A) role model mentioned (value =1)		"harmonious enterprise", harmonious development, operate in harmony	Huayou 2007
		(dt A) role model (predominant) <i>and</i> (O) role model mentioned (value 0.75)			A0902
<b>role model</b>	<b>role model communication</b>	<b>indifference: no mention of any, or mention of both role models (value 0.5)</b>	<b>0.5</b>	pursue social harmony, harmonious relationships, technological development, harmonious labour relations, integrity	Huayou 2007:1,6,14, A0902/15, 17,114
		(dt A) role model <i>and</i> (O) role model (predominant) mentioned (value 0.25)		sustainable development adopted	Huayou 2007: 35f
		O conformity: O role model mentioned (value =0)		GRI parameters reference	

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>role model</b>	<p>association with related moral authorities, institutions</p>	<p>(dt A) conformity: (dt A) moral authority mentioned (value 1)</p> <p>(dt A) moral authority (predominant) <i>and</i> (O) moral authority mentioned (value 0.75)</p> <p>indifference: no mention of any, or mention of both moral authorities (value 0.5)</p>	<b>0.25</b>	<p>ref. Brundtland report; definition of sustainable development;</p> <p>Reference to GRI;</p>	<p>Huayou 2007:1</p> <p>Huayou 2007: 35f</p>
		<p>(dt A) <b>moral authority</b> <i>and</i> (O) <b>moral authority</b> (predominant) mentioned (value <b>0.25</b>)</p> <p>(O) conformity: (O) moral authority mentioned (value 0)</p> <p><b>overall value (arithmetic mean)</b></p>		<p>ref to honesty and "the traditional Chinese concepts of Zhi Cheng Wu Xi and Hou de Zai Wu, which embody credibility, longevity and virtue in the world"</p>	<p>Huayou 2007:7</p>
			<b>0.375</b>	<b>Ideal type</b>	<b>r</b>



**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>		<p><b>(dt A) conformity: national framework, philanthropy (value 1)</b></p> <p>national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)</p> <p>indifference: no brand value being built up (value 0.5)</p> <p>national framework, core business case (predominant)</p> <p>OR: transnational framework (predominant) and philanthropy (value 0.25)</p> <p>(O) conformity: transnational framework, core business case (value 0)</p>	<b>1</b>	<p>2001-05: Chalco invested a total of 40.7 million Yuan for the poor, supporting the frontier, institutions, to Tibet, to retired officers, poor in Yangxin County, Hubei Province, assistance to Xinjiang, assistance to Yunnan, to Xingguo in Jiangxi Polytechnic University and Yunnan Polytechnic University.</p> <p>'Caring for our community': RMB 2mm assistance for schooling and needy employees, Tongxiang Charity Foundation</p> <p>no business case relation for both</p>	<p>A0902/182</p> <p>Huayou 2007:26</p>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>ideational stakeholder inclusion</b>	<b>reputation</b>	<b>(dt A) conformity: national framework, philanthropy (value 1)</b> national framework (predominant), core business case, or transnational framework and philanthropy (predominant) (value 0.75)	<b>1</b>	[dito]	
		indifference: no brand value being built up (value 0.5) national framework, core business case (predominant) OR: transnational framework (predominant) and philanthropy (value 0.25) (O) conformity: transnational framework, core business case (value 0)	<b>1</b>		<b>I</b>
<b>overall value (arithmetic mean)</b>			<b>1</b>	<b>ideal type</b>	<b>I</b>

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
<b>procedural stakeholder inclusion</b>	<b>range of acknowledged stakeholders</b>	<p>(dt A) conformity: few (1-3) stakeholders are mentioned (value 1)</p> <p><b>indifference: a medium range stakeholders (3-6) are mentioned (value 0.5)</b></p> <p>(O) conformity: multiple stakeholders (&gt;6) are mentioned (value 0)</p>	<b>0.5</b>	<p>multiple stakeholders are mentioned, but, the NGS context would require to actively include a comprehensive range of s/h in the sourcing areas; here: DR Congo, Aurukun; Huayou clearly falls short, Chalco now learns;</p> <p>this shortcoming is conveyed by assigning the indifference level</p>	

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers						
element of business legitimacy	operation-alisation	value definition	value	evidence	quote	
<b>procedural stakeholder inclusion</b>	<b>dominance of particular stake-holders</b>	(dt A) conformity: governmental stakeholders clearly dominant (value 1)	<b>0.75</b>	Meeting of CEO with Premier Wen; Chalco as SOE!	Huayou 2007: 30	
		indifference: no dominance (value 0.5) shareholders dominant, others important (value 0.25) (O) conformity: stakeholders clearly dominant (value 0)				
<b>overall value (arithmetic mean)</b>			<b>0.625</b>	<b>ideal type</b>	<b>P</b>	

**Annex 8 (cont.): Data sheets: generation of (A) types**

New Global Sourcers					
element of business legitimacy	operation-alisation	value definition	value	evidence	quote
output legitimacy	<p>'soft competitiveness'/ reference to competitiveness awards reported or social and environmental output reported</p>	<p>(dt A) conformity: mention of competitiveness awards, no mention of social and environmental output (value 1)                      mention of both, emphasis on competitiveness awards (value 0.75)                      indifference: no mention of any form of output (value 0.5)  <b>mention of both, emphasis on social and environmental output (value 0.25)</b>                      (O) conformity: mention of social and environmental output, no mention competitiveness awards (value 0)</p>	<p><b>0.25</b></p>	<p>list of 12 competitiveness-related awards;                      award "most valuable company for investment in Hangzhou";                      "National March 8 red-banner pacesetter";                      "National Youth posts hands" honour.                      However: ample display of social and environmental output;                      Golden Bee (WTO Tribune, GTZ) CSR award</p>	<p>Huayou 2007: 30; see also huayou.com website                      A0501/48f                      A0902/76                      Huayou 2007, A0902/15, 19,21,122,124</p>
	<b>overall value</b>		<b>0.25</b>	<b>ideal type</b>	<b>0</b>
Source: Own compilation					

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