

CSR in Natural Disaster Relief – China's Experiences¹

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China is a country of a vast territory with wide latitude and a variety of terrain. Its geographical features make it vulnerable to natural disasters. In a normal year, the annual direct economic loss due to natural disasters is between RMB 200-250 billion (about US\$ 31.75-39.68 billion) (as shown in **Table 1**). In recent three years, China experienced several major natural disasters, in which, the Sichuan Earthquake imposed a critical challenge to Chinese government, enterprises and people. The corporate behaviors of China as well as their motivations in natural disaster relief efforts are worth studying. This note aims to present a summary on enterprise philanthropy motivation based on a literature research and apply it to enterprise motivation in responding to natural disaster relief. The note also briefly mentions the Chinese pairing-up model in reconstruction efforts so as to provide useful experiences.

1. Major Natural Disasters in China (2008 – 2010)

- The Severe Snow and Icy Rain Storm Disaster (Jan. – Feb., 2008)
Lasting for about a month and affecting nearly 20 provinces and municipalities, the severe snow and icy rain storm disaster caused 107 people died, 8 missing, and 1.512 million people emergently relocated. Since it happened in the busiest travel season due to the Chinese Spring Festival, a total of 1.927 million people trapped on railway, highway or airports. The direct economic loss due to this disaster reached RMB 1.541 billion.
- The Sichuan Earthquake (May 12, 2008)
On May 12, 2008, a major earthquake of 8.0 Ms hit Wenchuan, Sichuan greatly affecting about 10 provinces and municipalities, resulting in 68,227 people died and 17,923 missing. Total affected area reached 500,000 sq km with numerous secondary disasters such as landslides, mud-rock flows, and barrier lakes.² The total direct economic loss of this earthquake reached RMB 845.1 billion (about US\$134.14 billion).³
- The Yushu Earthquake (April 14, 2010)
In the morning of April 14, 2010, Yushu, Qinghai province was hit twice by earthquakes with the largest of 7.1 Ms, causing 2698 people died and 270 missing. 7

¹ Rewrite based the presentation on Asia Future Forum 2011 (on November 15, 2011 in Seoul, Korea)

² Li Jiangqiang and Liu Fengjun, *Empirical Study on the Market Impact of Corporate Philanthropic Giving – Taking the Donation in “5.12” Earthquake for Example*, China Soft Science Magazine, 2010(6): 160-166.

³ http://news.xinhuanet.com/fortune/2008-09/05/content_9774202.htm, 20111112

counties were affected.⁴ By Dec. 31, 2010, total amount of donation reached RMB 2.8 billion.⁵

- The Chouqu Mudslide (August 7, 2010)
In the evening of August 7, 2010, a severe rain storm hit Zhouqu, a county in southern Gansu province, causing 1463 people died, 302 missing and 20,227 people stricken. The economic loss was estimated as RMB 220 million. Up to August 15, 2010, total donation reached 386.4 million RMB⁶

2. Data Talks

As the follow table shows, the annual direct economic loss due to natural disasters is between RMB 200-250 billion in a normal year and it reached a peak in 2008 due to the great Sichuan earthquake and a secondary peak.

What is more worthy of noticing is that the Sichuan earthquake event triggered the largest amount of donations since 1949, the foundation of the People's Republic of China. According to an incomplete statistics, by May 19, 2008, domestic companies donated RMB 4.25 billion and by May 22, 2008, domestic companies donated RMB16.01 billion. Up to May 12, 2009, the total amount of donations reached RMB 76.7 billion with cash donation of 65.996 billion, donation in the form of party membership 9.73 billion, and material donation of 10.716 billion.

Hence, we can claim that the Sichuan earthquake awakened the awareness of Chinese enterprises' responsibility in natural disaster relief. As Rupert Hoogewerf (also called Hurun in Chinese), the founder of Hurun Report which include the China Rich List and the "Hurun Philanthropy List" (a ranking of the most generous individuals in China) once said, it was the first time for him to notice such a general philanthropic actions done by enterprises and entrepreneurs in China.⁷

Table 1 Economic Losses of Natural Disasters and Donations (Unit: billion RMB)⁸

YEAR	Direct Economic Losses due to Natural Disasters	Total Amount of Donations
2005	204.21	3.13
2006	252.81	4.30
2007	236.30	5.09
2008	1175.24	47.93
2009	252.37	50.93
2010	534.00 ⁹	60.17 ¹⁰

⁴ <http://baike.baidu.com/view/3481726.htm#1>, 20111120

⁵ Han Ying, A Study on the Natural Disaster Donations of China since 1978

⁶ ditto

⁷ Wang Zhilin, *Corporate Philanthropic Donation Behaviors in China: From the Perspective of Weber's Theory of Social Actions*, Theoretical Observations, No. 2, 2009, pp. 94-96.

⁸ Data for 2005 – 2009 come from the Statistical Yearbook 2010 by the Ministry of Civil Affairs of PRC

⁹ by the National Bureau of Statistics of China

¹⁰ by the Ministry of Civil Affairs of PRC

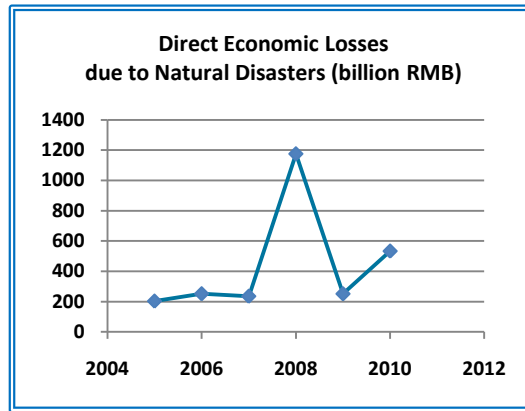


Figure 1 Economic Losses Caused by Natural Disasters (2005 – 2010)

Year 2008 witnessed a dramatic raise in donation in China. It should be noticeable that the yearly donation keeps growing since then, even in year 2009, a year without major natural disasters (see **Figure 2**).

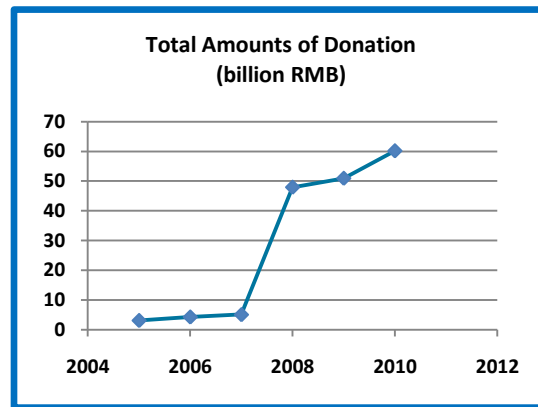


Figure 2 Total Amounts of Donation (2005 – 2010)

3. Enterprises' Motivations

Enterprises' motivation for social responsibility or in particular, philanthropy has been widely studied for some time by many scholars. Cai Ning, et al. (2009) summarized three research perspectives on enterprises' philanthropy, namely, economic rationality, social contract and institutional regulation.¹¹ Other research literature after the Sichuan earthquake provided supporting evidences to the three perspectives.

3.1 Economic Rationality – strategic philanthropy

Economic rationality, also known as strategic philanthropy, believes that enterprise philanthropy could bring better profit, bring more internal and external resources and

¹¹ Cai Ning, Shenqi Taisong, and Wu Jiebing, *Economic Rationality, Social Contract and Institutional Regulation: A Review and Extension on the Enterprise Philanthropy Motivation*, Journal of Zhejiang University (Humanities and Social Sciences), Vol. 39, No. 2, Mar. 2009, pp. 64-73.

benefits, help build better reputation and attract talents, and hence gain competitive edge. The following research done by Chinese scholars provided evidences to this perspective.

Zhong Hongwu of Institute of Economics, Chinese Academy of Social Sciences in his public survey done shortly after the Sichuan earthquake resulted in the following statistics:

- ▶ 79% of consumers prefer to buy products of the companies donated while 64.7% blame the companies who did not donate at all.
- ▶ 70% of respondents would consider to purchase the stocks of the companies donated while 65% would consider to sell off the stocks of parsimonious companies.

Base on the data of Chinese A-share companies after the Sichuan Earthquake, Shan Liwei, et al. concluded that, on average, companies of consumer products donated 50% more in total amount of donations, 1.8 times more in cash, 35% more on the ratio of cash over revenue, and 30% more in total amount of donation over revenue, than non-consumer product companies.

3.2 Social Contract

It is a common practice that enterprises constantly devote efforts and money in building up and improving their corporate image and branding. Many enterprises demonstrate its value through philanthropic actions to attain this goal. This type of efforts helps to form an implicit contract between enterprises and the society, i.e., enterprises must shoulder its responsibilities for its stakeholders, and public would hold enterprise as an ethical agent and therefore apply an ethical contract norm to enterprises' behaviors.

Huang Minxue, et al. claimed that there exists social contract between public and enterprises.¹² The researchers selected a sample of 42 among over 600 enterprises listed in the sina.com column of *the Actions of Corporate Citizens* (企业公民在行动) and analyzed the comments made by netizens (internet viewers). Their research reached the following conclusions:

- ▶ The efforts of companies made to build and improve their reputation help to enhance this social contract.
- ▶ The social contract requires the companies to take actions consistent with the reputation they tried so hard to build up. Otherwise, the companies would be heavily challenged.

A positive example is Wang Laoji Cold Tea, a brand product of the JDB Group, a large drink producer. It was highly praised by public for its immediate donation and the large amount of donation to the Sichuan earthquake. Vanke Co. Ltd., the largest residential real estate developer in China, on the other hand, became a negative example because the relatively “stingy” donation made by Vanke and the improper comment made by its president, Wang Shi, on netizens' criticism.

- ▶ The faster an enterprise reacted, the better societal appreciation.

¹² Huang Minxue, Li Xiaoling, and Zhu Huawei, 企业被“逼捐”现象的剖析：是大众“无理”还是企业“无良”？, Management World, 2008(10): 121-132.

The society tends to interpret companies' quick response to natural disasters as the reflection of corporate social responsibility. Slow action takers would be considered as being pushed, not voluntarily, to respond, and hence will not receive as high appreciations from the society as quick action takers.

3.3 Institutional Regulation

A societal focal attention to enterprises' philanthropic performance would push enterprises in a community to take similar actions, i.e., **isomorphism**. So, when natural disaster happens, an effort of getting the whole society's attention becomes crucial in forming an institutional regulation that would help companies to follow the behaviors of their peers with greater disaster relief contribution.

In this sense, media can make a great difference. Taking the Sichuan earthquake as an example, Chinese TV Stations stopped all entertainment programs and reported live and 24-hour rescue efforts/achievements as well as enterprise donation updates. Chinese newspapers stopped all entertainment columns to report rescue efforts including donation progress. Big Chinese portals, such as sohu.com, netease.com, sina.com, yahoo.com and ifeng.com, quickly present enterprise donation lists, even miser lists, and columns like "Enterprises in Actions". All these efforts helped to draw public eyes and hence cultivate an atmosphere in which companies tend to take quicker and more responsible actions in disaster relief efforts.

Moreover, enterprises need business operation **legitimacy** to gain resources and sell products and services. And the social responsibility activities would help enterprises to gain such legitimacy. Making contributions in natural disaster relief efforts would certainly help enterprises gain legitimacy.

Due to the functions of Chinese central and local governments, responding to the governments' call, in addition to meeting public's expectation, would certainly help enterprises to gain legitimacy. In return, the legitimacy would help enterprises to build up closer or even intimate relationship with governments to obtain possible direct economic benefits.

4. Paired-Up Reconstruction Model

The Chinese model of reconstruction management is worth of mention. The model is called paired-up reconstruction model, in which, 20 provinces and municipalities paired up with quake hit cities and towns to carry out the reconstruction projects planned. For example,

- ▶ Shangong and the new Beichuan county
- ▶ Guangdong and Yingxiu town
- ▶ Zhejiang and Qingchuan county
- ▶ Jiangsu and Mianzhu city
- ▶ Shanghai and Dujiang Yan
- ▶ Beijing and Shifang city

The pairing-up model also applies to companies.

The model turns out to be very effective. By May of 2011, three years after the earthquake, 3860 paired-up reconstruction projects have completed with total funds of RMB 76 billion.

Right now, the paired-up reconstruction has entered into a new phase. 18 out of 20 provinces and municipalities participated in the reconstruction pairing up have started a paired-up collaboration.

Although the paired-up reconstruction was mainly organized by the central government and carried out by provincial and municipal governments, enterprises' active or proactive participation will not only obtain business opportunities but also improve legitimacy.

5. Conclusions

Enterprises' Motivations for philanthropy or, in particular, natural disaster relief efforts, can be summarized into economic rationality, social contract and institutional regulation.

Economic rationality is enterprise instinctive motive while society can make efforts in the aspects of social contract and institutional regulation. For instance, government and public can gradually put higher expectations on enterprises so as to tighten the social contract and hence can anticipate enterprises' more prompt and sizable contribution when disaster happens. On the other hand, media plays an important role of getting public attention focused on natural disaster rescue and relief and governments' impacts play crucial role in building up an institutional regulation so that enterprises have to watch out and benchmark their responsive behaviors.

The Chinese pairing-up model may provide useful experiences for other countries in their natural disaster relief reconstruction.

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