

## EVOLUTION OF SUSTAINABLE DEVELOPMENT STRATEGIES IN CHINESE SMEs

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**Abstract:** Currently, companies are expected to conduct their operations and generate more profits by adopting strategies of sustainable development through balancing between economic, social and environmental objectives. This approach has made companies to work on a responsible and sustainable model called corporate social responsibility to judge corporations not just on their economic success but also on non-economic criteria such as social and environmental success. In order to evaluate sustainable development strategies in Chinese SMEs, this study depends on survey using questionnaire distributed randomly to 100 Chinese SMEs located in Nanchang city, Jiangxi province, China, however, only 79 enterprises who have answered the distributed questionnaires. This study focuses on descriptive analyses using SPSS statistics 16.0 software. The results found that the analyzed sample contribute in both of social and environmental aspects in order to implement sustainable development strategies.

**Keywords:** Economic, Social, Environmental, Responsibility, Sustainable Development, Chinese SMEs.

### 1. Introduction and Overview

An organization can contribute to sustainable development by delivering simultaneously economic, social, and environmental benefits (Hart & Milstein, 2003). And in order to balance between these three benefits, enterprises are working on a responsible and sustainable model called corporate social responsibility (CSR). Recently, this later has an importance over the world, and it is a good way to reach sustainable development. A lot of experiences, such as in Japan, USA and Germany showed that the most successful companies are those that focus not only on profits, but also on its social and environmental activities to gain a good reputation in the public opinion, and help in getting young cadres creative and innovative for its continuation and development. In Germany and Japan, CSR has been driven by a strong environmental movement. However, in USA, Arab World and India, CSR has been driven by a strong philanthropy movement (Bouanini & Dadene, 2014).

Currently, CSR requires companies to provide the quality of life. According to the European Commission (2001), CSR is “the integration by companies of social and environmental concerns in their business operations and in their integration with their stakeholders on a voluntary basis”. Since 2004, CSR has become a prominent issue in Chinese academic and policy forums. And current administrations in China are pursuing CSR through the policy guidelines “of people first,” “concept of scientific development,” and “harmonious society.” So no doubt CSR will become increasingly important in China as the initiatives undertaken by the government, economic organizations and companies to gain the sustainable development which is defined as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs (the world commission on environment and development “WCED”, 1987).

Most SMEs in China came about in the last 15 years. With the opening up of China to market economy in the 1980s as part of the market-oriented reforms initiated by Chinese leader Deng Xiaoping, private SMEs were finally recognized as vital to the country’s economic development (Liu, X., 2008). SMEs represent a major step towards an improved business environment and aim at promoting entrepreneurship, investments and growth. They are an essential source of jobs, create entrepreneurial spirit and innovation and are thus crucial for fostering competitiveness and employment (European commission, 2005).

The significance of this research paper is shown through analyzing of how the Chinese SMEs consider economic, social and environmental responsibilities among their strategies to achieve sustainable development. As well as it will show the number of SMEs obtaining certifications and standards. Moreover, it is important to focus on the ways of implementing CSR because as more as the number of SMEs is increasing, the need to enhance the implementation of CSR is also increasing; and this is the reason behind this study.

### **1.1 Theoretical Approach of SMEs in China**

SMEs definition in China depends on the number of employees, annual revenue, and total assets comprising a company. The definition of an SME in China is quite complex and can include relatively large firms. And according to International Finance Corporation & World Bank Group (2012), there are three different definitions of SMEs in China (see following table 1).

**Table 1:** Definition of SMEs in China

Criteria	Chinese Ministry of Industry and Information Technology (2011) (Meeting 1 of the 3 criteria)		Chinese Economic and Trade Commission (2003) (Meeting 1 of the 3 criteria)		The World Bank Group (Meeting 2 of the 3 criteria)
	Small	Medium	Small	Medium	
Number of Employees	< 300	300 - 1000	< 300	300 - 2000	< 300
Total Asset	NA	NA	< 40 million RMB	40 - 400 million RMB	< 100 million RMB
Total Annual Sales Revenue	< 20 million RMB	20 - 400 million RMB	< 30 million RMB	30 - 300 million RMB	< 100 million RMB

**Source:** International Finance Corporation & World Bank Group (2012).

As all the published statistics in China follow the Chinese definitions, a complete break down and re-aggregate of the existing statistics using the World Bank Group criteria will only prove unrealistic. Although the definitions by Chinese authorities are different from that of the World Bank Group, the differences might be getting narrower. The number of employees for medium enterprises has gone down from 2,000 to 1,000 from 2003 to 2011, respectively. Although neither is significantly larger than the World Bank Group definition criteria (under 300), considering that China is a populous country with historically low labor costs, companies of the same scale in China could be more inclined to select a mode of production that is more labor intensive than a similar company elsewhere in the world, thus employing more people (International Finance Corporation & World Bank Group, 2012).

Based on the 2003 definition of SME in China, in 2007, 99.7% of the total number of companies operating in China represented SMEs (Liu, 2008). The 2011 definition dropped total assets as one of the three criteria. Over the past decade, the service sector – typically with light assets – has boomed in China, and now represents a much bigger share in total businesses. Exclusion of total assets as one of the three qualifying criteria may avoid blurring of the picture by mistakenly including large service providers who are light on assets.

On the surface, the upper limit of total annual sales revenue has increased from RMB 300 million to RMB 400 million. However, if inflation is taken into consideration, RMB 300 million back in 2003 actually has a higher purchasing power than RMB 400 million in 2011.

Therefore, overall, the Chinese definition of SMEs is “shrinking” in every way (International Finance Corporation & World Bank Group, 2012).

For all practical purposes, the Study is based on the most recently published statistics in 2011 that reflect the country’s situation in 2010. As 2010 happens to be the last year of the 11<sup>th</sup> Five Year Plan period (2006-2010), the 2010 data are also the baseline for all published projection for the period of the 12<sup>th</sup> Five Year Plan (2011-2015).

## **2. Literature Review**

There are a number of literatures concerning the implementation of CSR in Chinese enterprises. And among these literatures, Simon et al (2005) analyzed 154 annual reports of 33 Hong Kong listed companies from 1993 to 1997 to determine corporate social and environmental disclosure in Hong Kong. In 2008, Shi et al. examined underlying barriers to adoption of cleaner production by SMEs in China from the perspectives of government, industry and expert stakeholder groups. Moreover, Francesco et al (2008) analyzed the practices adopted and difficulties experienced by small and medium-sized enterprises to transfer socially responsible behaviors to suppliers that operate in developing countries.

In 2009, Jian and Vidhi made a survey of corporate communication and public relations executives in Chinese companies on aspects of corporate social responsibility accountability and transparency. Furthermore, Lu and Hongmei (2009) explored how leading Chinese and global companies operating in China communicate their corporate social responsibility principles and practices to the Chinese stakeholders.

In 2011, Zeng et al studied the main forces driving SMEs for promoting environmental management. And they found that environmental performance and economic performance for SMEs are positively correlated. Moreover, they found that SMEs with high-pollution levels, social and market driving forces and government incentives are revealed having a significant effect on their environmental performance.

In 2012, He et al proposed an empirical study that addressed how corporate social responsibility is perceived in Chinese companies and evaluated briefly some practices about environment, consumers, and external communication. And they found that Environmental and consumer practices have shown more implemented and useful than those related to communication. In the same year, Henry et al (2012) examined the perceived importance of corporate social responsibility attributes of Hong Kong hotel employees and their hotel’s performance on those attributes. And they found that there were law awareness toward the environment of both the employees and the hotels. In addition, Zhi and Jintong (2012)

proposed that stakeholders-firm power difference determines firm's environmental performance and stakeholders' CSR orientation moderates this relationship. And they found that governments, competitors, and the media-firm power difference indeed significantly affect Chinese SMEs environmental performance. Furthermore, Luis and Xavier (2012) analyzed how small and medium-sized accommodation enterprises take corporate social responsibility, and they found that the main reason for acting responsibility is altruistic, although competitiveness reasons are also important.

Most previous researchers focused on the incentives and barriers for adopting CSR, however, this research paper will analyze the evolution of sustainable development strategies in Chinese SMEs through applying different standards and methods for balancing between economic, social and environmental success.

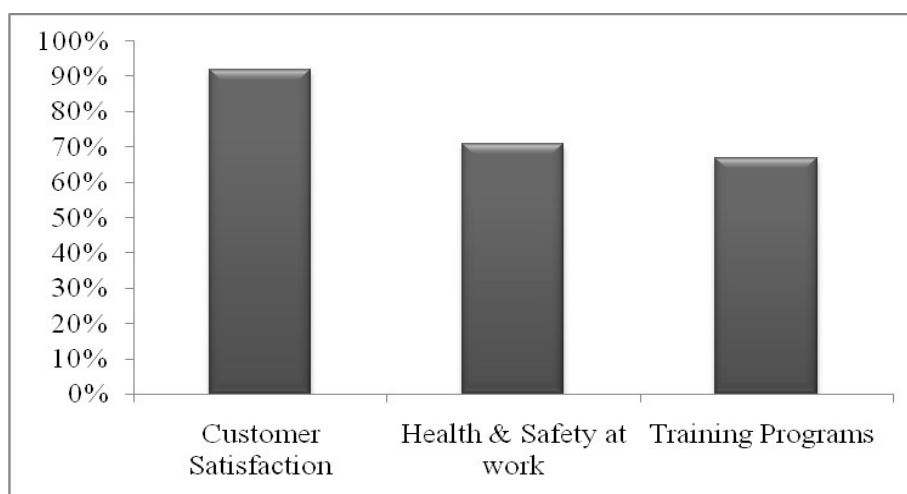
### **3. Research Methodology**

This study focuses on descriptive analyses in order to analyze the different methods followed by Chinese SMEs to perform on sustainable way. So firstly, we prepared questionnaire about different CSR's methods and the kinds of certifications and standards obtaining by Chinese SMEs. Secondly, this questionnaire was distributed randomly to 100 Chinese SMEs located in Nanchang City, Jiangxi province, on March 2014. However, only 79 enterprises who have answered the distributed questionnaires, and finally, this study used SPSS statistics 16.0 software to analyze the results.

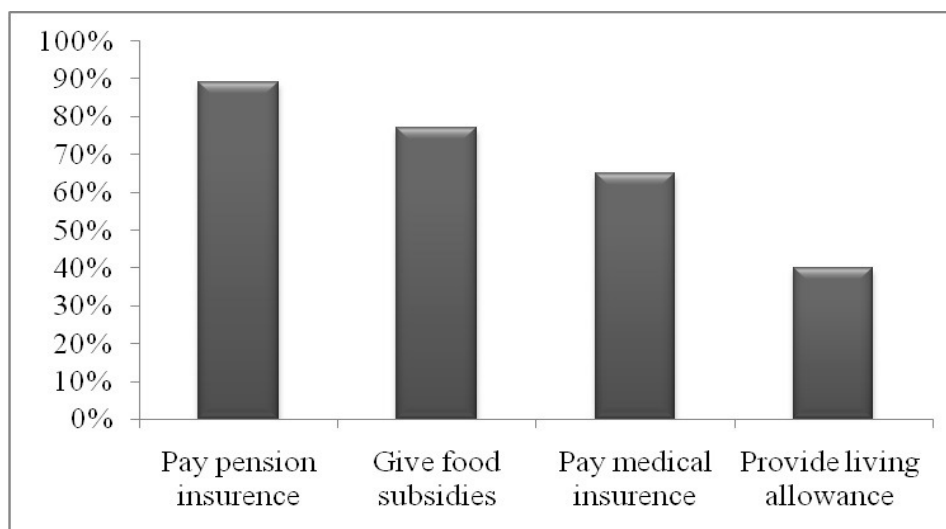
### **4. Findings and Discussion**

After extracting the results using SPSS statistics 16.0 software, it was found that among the 79 enterprises; 44% were industrial, 31% were commercial, 14% were services, 6% were agricultural and 5% were financial enterprises.

In order to contribute in social responsibilities; companies should provide training programs for employees, connecting security and health working environment with job description, creating more job opportunities to eliminate unemployment, providing customer satisfaction, and providing employees' satisfaction, ...etc. Among the sample analyzed there is nearly 92% of companies care about customer satisfaction. There are 71% of companies that connect security and health working environment with job description. 67% of companies have staff development training programs (see figure "1" about the contribution of companies in social aspects).

**Figure 1: Contribution of companies in social aspects**

So as to satisfy employees, 89% of companies pay pension insurance, 77% of companies give food subsidies, 65% of companies pay medical insurance and 40% of companies provide living allowance for employees (see figure “2” concerning the contribution of companies in employees’ satisfaction). Moreover all surveyed companies don’t have child labor.

**Figure 2: Contribution of companies in employees’ satisfaction**

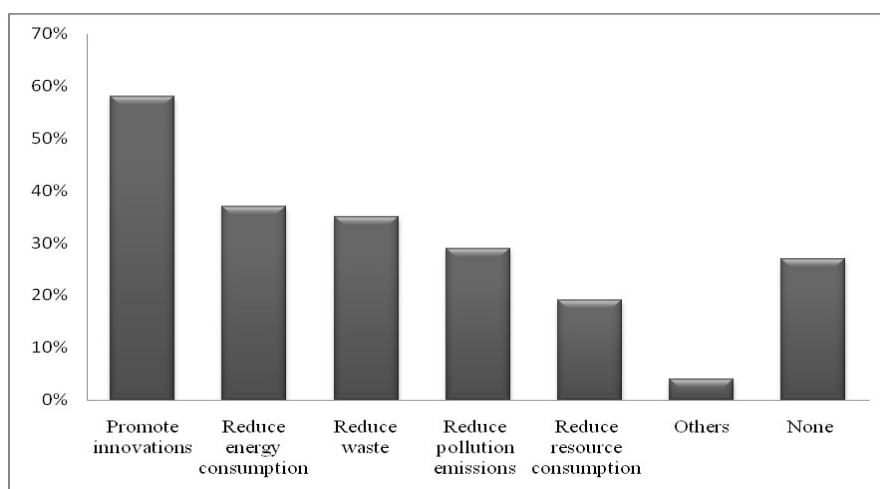
In addition, in order to eliminate unemployment, Chinese SMEs are creating more job opportunities with different percentages as it is shown in the following table “2”. Almost 49% of companies are contributing moderately to job creation, 21.5% of companies create many job opportunities and 29% of companies create very few job opportunities.

**Table 2:** Creating job opportunities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Many	17	21.5	21.5
	Average	39	49.4	70.9
	Very few	23	29.1	100.0
	Total	79	100.0	100.0

Furthermore, in order to contribute in environmental responsibilities; companies should prevent the environment through several ways such as: promoting innovation, reducing waste, reducing energy consumption, reducing resources consumption and reducing pollution emissions. The results showed that 58% of companies promote innovations, 37% of companies reduce energy consumption, 35% of companies reduce waste, 29% of companies reduce pollution emissions and 19% of companies reduce resource consumption. However, 27% of these companies don't contribute in environmental aspects (see figure "3" that shows these percentages).

**Figure 3:** Contribution of companies in environmental aspects



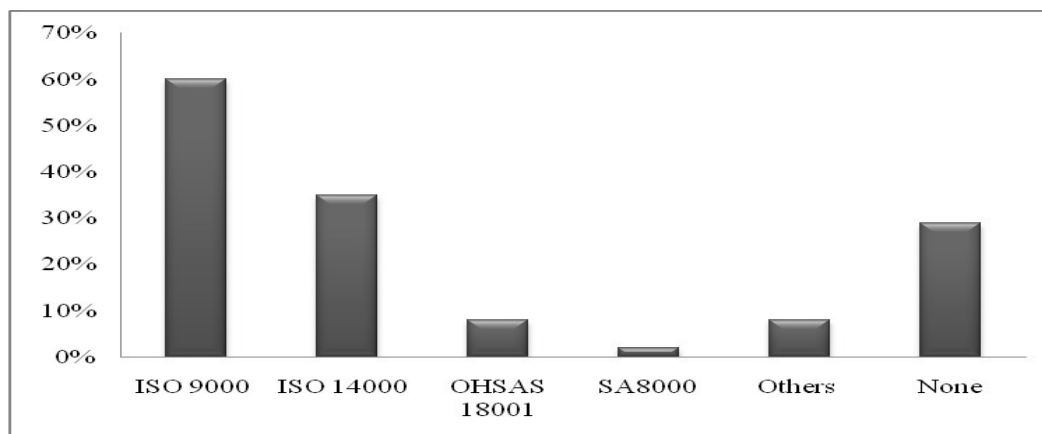
There are a series of standards and certifications that manage the work of companies in sustainable way, and among these standards there are ISO 9000 series which is developed and published by the International Organization for Standardization (ISO). These series deal with the fundamentals of quality management systems. ISO 14000 family standards is related to environmental management that exists to help organizations for minimizing their negative effect on the environment, and to comply with applicable laws, regulations, and other environmentally oriented requirements.

SA8000 is a Social Accountability standard for decent working conditions; this standard is developed and overseen by Social Accountability International (SAI), and it is an auditable certification standard that encourages organizations to develop, maintain, and apply socially acceptable practices in the workplace.

OHSAS 18001 is a standard for Occupational Health and Safety management Systems. According to ISO, in 2011, China was in the top 10 countries for the total number of certificates and standards with 297,037 certificates.

And according to the figure “4” below, 60% of the surveyed Chinese SMEs has ISO 9000 certificates, 35% of these companies has ISO 14000 certificates, 8% of these companies has OHSAS 18001 standards, 2% of these companies has SA8000, and 8% of these companies has other certificates. However, 29% of companies don't have any certification. Therefore, these companies should focus more on environmental and social responsibilities, as well as, they should connect more safety and health working environment with job description.

**Figure 4:** certification and standards obtaining by Chinese SMEs



## 5. Concluding Remarks

Currently, companies are expected to conduct their operations and generate more profits by adopting standards and certifications to process in social and environmental aspects. And in reference to the growing awareness of the importance of social and environmental responsibilities, China requires companies to provide not only the quality of goods, services, and employment; however, also the quality of life, health, safety, and environmental protection.

The Chinese SMEs in the analyzed sample contribute in a good way in social aspects through different ways such as: caring about customer satisfaction, providing security and health working environment, providing staff development training programs, caring about employee satisfaction by paying pension insurance, giving food subsidies, paying medical insurance



and providing living allowance for employees, and creating job opportunities to eliminate the unemployment. As well, these companies contribute in environmental aspects through several ways such as: promoting innovation, reducing waste, reducing energy consumption, reducing resources consumption and reducing pollution emissions.

In order to evaluate sustainable development strategies, China is focusing on obtaining more standards and certifications which reflects that Chinese companies are processing in sustainable manner. Therefore, in 2011, China has occupied the top 10 countries for the total number of certificates and standards with 297,037 certificates. However, Chinese SMEs should focus more on obtaining standards and certificates concerning environmental and social responsibilities.

As the nature of any study, this research paper has some limitations such as: some lack of information which can help more in supporting this paper, as well this study can be improved by doing interview with these companies and verifying the validity of owning these companies these certificates and standards, and to verifying what has been achieved in the field of environmental and social aspect through providing numbered data.

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