

# Strategizing Corporate Social Responsibility

## -- Evidence from Guangdong Wen's Foodstuffs Group Co.

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### **Abstract**

Along with the advancement of economic globalization and industrial revolution, scholars and managers have realized the importance of corporate social responsibility (CSR). However, there is still an absence of a knowledge bridge between theories and practices, namely how to apply CSR theories to strategic management practices. This paper adopts a qualitative study method and takes Wen's Foodstuff Group Co., a leading agricultural company, as an example to develop relevant researches. Results show that: the founders' ideas and values serve as the base for its sustainable development strategies. The corporation enhances its social responsibility idea by corporate culture and applies the strategic responsibility thought to daily management. The essence of Wen's strategic CSR is to attach importance to food safety, environment protection, and loyal cooperation with employees and farmers in strategic choice. At the same time, the corporation copies the successful strategic mode in other regions. Its successful strategies depend on paying more attention on food safety and environmental protection, treating competitors, community, media, governments friendly.

**Keywords:** Corporate social responsibility, Strategy, Wen's Foodstuffs Group Co., Corporate culture

### **1. Introduction**

The study of corporate social responsibility (CSR) has begun in early 20th century in western countries. Along with the advancement of economic globalization and industrial revolution, CSR is becoming a mainstream issue. Entering the new century, the scientific development view, constructing a harmonious society and realizing a human-oriented, comprehensive, coordinative, and sustainable development have already become a consensus in China. Accordingly, the global "CSR movement" has generated profound effects on Chinese companies. In China, more and more companies, entrepreneurs, and scholars have already realized the importance of CSR. However, there is still an absence of a knowledge bridge between theories and practices. At present, lots of CSR researches focus on large-scale enterprises and state-owned companies, paying more attention on the relationship between social performance and financial performance, instead of corporate managers' CSR ideas and how to apply CSR to management process. Besides, practical cases are in an extremely short. As a matter of fact, private economy has already become a backbone for China's economic development. Private enterprises should also shoulder relevant social responsibility in sustainable development. However, most managers in private enterprises do not know how to construct a procedure that affects the corporate management process in order to realize the combination of CSR and strategic management. Theories in this aspect are still undeveloped, which delays management's best practices and more responsible corporate behaviors.

In order to make up this absence and help to fill these theoretical and empirical voids, we focus on an in-depth study of a single case: Wen's Foodstuffs Group, a leading agricultural private enterprise. It is the only private enterprise that has been honored as a national civilization unit by the Central Spiritual Civilization Construction Committee. Besides, it has gained the name of being "a key leading enterprise in national agricultural industrialization" granted

by Ministry of Agriculture of China. It has won more than twenty honors at the provincial level or above. In recent ten years, avian influenza and SARS have heavily hurt China's agriculture. Some breeding companies failed to survive and finally disappeared. In contrast, Wen's Foodstuffs Group shows its strong anti-risks ability and market competence. Evidence from this corporation, we can analyze its dynamic changes by investigations and make further research on how enterprises fulfill their social responsibilities, enriching the present studies.

## **2. Theoretical background and research questions**

As the most direct force in pushing economic development, enterprises hold a special status in constructing a harmonious society. Carroll and Buchholtz (2004) think that after several decades of years' discussion, only few managers and scholars disagree that enterprises should shoulder social responsibility. Most agree that enterprises should protect and enhance the rights and interests of employees, consumers, creditors, communities, environment, government, and other stakeholders except shareholders as much as possible as they pursue and create profits for shareholders. Some scholars begin to study the combination of CSR and corporate strategy recently because it is the most advanced and practical method to apply CSR to corporate operation. Most studies in this field emphasize on the importance of strategic social responsibility.

From a view of strategic management, Freeman (1984) thinks that stakeholders are individuals or groups that can affect or be affected by the implementation of corporate strategic aims. He studies the corporation's strategic management based on the complex relationship between corporate stakeholders. Enterprises do not live in vacuum. They contact with all kinds of sectors in the society all the time. The corporate social responsibility is comprehensive.

Marsden (1996) points out that it is easier for enterprises with social responsibility to recruit new employees who sustain their loyalty to enterprises. Burke and Logsdon (1996) put forward that the CSR can benefit both the enterprise and the stakeholders and the society in the same way. As CSR can generate real interests for enterprises, especially the support for the main business, it can help to improve enterprises' effects, what is helpful to improve corporate social responsibility (policy, progress) to a strategic level.

Archie B. Carroll thinks that the CSR is the society's hope for enterprises fulfilling their obligations. The society hopes enterprises should not only realize their missions in economy but also obey laws, follow ethics, and benefit public interests. Therefore, the complete CSR includes enterprises' economic responsibility, legal responsibility, ethical responsibility and philanthropic responsibility.

Murray (1997) thinks that CSR should be regarded as a key driving factor for corporate performance. Although the carry-out of corporate social responsibility can not generate direct and fast economic effects for enterprises, the CRS can bring about strategic return for enterprises, which can benefit enterprises' long-term return, generating more extensive return for responsible enterprises.

Macleod (2001) thinks that CRS can help to increase employee commitment to the firm and improve the firm's fame. By communicating with stakeholders, it can help to realize the problem management properly. Porter and Kramer (2002) argue that corporate charity should be rooted in enterprises' competence and take the environment into consideration rightly. Besides, once corporate strategy combines with CSR, enterprises should inform all stakeholders (Perrini et al, 2007).

Chinese scholars also agree the importance of strategic social responsibility. Qijun Jiang (2005) thinks that to fulfill corporate social responsibility can benefit enterprises in many ways: fame management, risks management, employees' satisfaction, innovation and leaning, using capitals effectively, economic performance, and improving competitive environment properly. Therefore, enterprises fulfilling the social responsibility can help to improve enterprises' comprehensive competence. In the long run, there is a positive correlation between the fulfillment of corporate social responsibility and the corporate competence.

Generally speaking, most scholars agree that enterprises should shoulder social responsibility and think that to construct CSR from a strategic angle can benefit the development of enterprises. However, many researchers take the enterprise as a "black box". Most researches are merely based on logic conclusions afterwards. As a result, the conditions and intentions for the combination of corporate strategy and CSR are still unclear. As enterprises emphasize on CSR, they seldom pursue the coordination of CSR, corporate policies and procedures, and their strategies. Apparently, experience cases are not sufficient to support theoretical research. Therefore, for researchers, a greater challenge is to analyze the conditions and bases for applying CSR to corporate strategy and organizational operations by case study.

Evidence from an agricultural leading enterprise, Wen's Foodstuffs Group, this paper tends to explore the relationship between enterprises' CSR and corporate strategy, hoping to develop a more specific frame based on

present CSR literature, in order to understand how strategic CSR happens in an agricultural private enterprise.

### **3. The background of Wen's Foodstuffs Group and the study method**

#### *3.1 The background of Wen's Foodstuffs Group*

Guangdong Wen's Foodstuffs Group was founded in 1983. Beiyong Wen and seven farming families and eight farmers created the predecessor of Wen's Foodstuffs Group ----- Lezhu chicken house. After twenty-five-year's development, it has already developed into a large agricultural and farming corporate group that takes breeding industry as the main business and food process and biopharmaceutical industry as simultaneous businesses, being the largest broiler production and supply base in Guangdong province. It possesses more than eighty son companies, distributing in sixteen provinces, cities, and autonomous regions. It has equipped breeder bird houses, hatching houses, feedstuff houses, and service sectors in branch companies, realizing an integrated operation concerning farmers, trades, sciences and technologies, production, supply, and sales. In 1999, Wen's Foodstuffs Group was honored as "a leading agricultural enterprise" by Guangdong provincial government. In 2000, it was granted as a key leading enterprise in national agricultural industrialization by Ministry of Agriculture of China and other five ministries. Since 2002, Wen's Foodstuffs Group has introduced the ISO9001 quality management standard. Its production management system has already passed ISO certification, non-pollution agricultural product certification, HACCP certification, GMP certification, and many quality-related authorized certifications. Now Wen's Foodstuffs Group has more than sixty integrated chicken-breeding companies, producing more than 600 million chickens annually. It is the largest chicken-supply base in China. Hog products have passed the provincial non-pollution agricultural product certification and have been named as a famous brand product in Guangdong. Guangdong Dahuanong Animal Health Products Co., LTD, an underling company of Wen's Foodstuffs Group, is appointed to produce anti-SARS H9 and H5 vaccines, contributing a lot to the battle against SARS.

In Xinxing County, Guangdong province, there were four agricultural enterprises engaged in chicken-breeding business, namely Wen's Foodstuffs Group, Wenshuan Group Co., LTD, Wenmuhui Group Co., LTD, and Guzhanghan Wanyi Chicken-Breeding Co., LTD. In short, they are "three-Wen and one- Gu". However, "two-Wen and one-Gu" failed. In contrast, Wen's Foodstuffs Group sustains nice development and achieves marvelous progresses in competence, ecology, and society. What's the reason? Based on researches, the author thinks that it is the CSR that serves as the capital collector in Wen's Foodstuffs Group, which establishes a sound base for sustainable development.

From table 1, we can notice that Wen's Foodstuffs Group has developed in a stably rising trend.

#### *3.2 Research method and data collection and process*

It is hard to directly measure the complex and dynamic construction of strategic CSR by quantitative method because the quantitative method is right for large-scale social investigation in a macro aspect. The qualitative method is more suitable for the construction of strategic CSR. By a deep and careful research on the interaction between researchers and research objects, we can get a relatively comprehensive explanative understanding to the nature of thing.

In this paper, the author adopts different method to collect data. After analyzing the history materials, annual reports, internal management files, social reports, other scholars' research reports, and industrial background materials provided by the enterprise, the author interviews some corporate managers by a semi-structural talk. In other words, give direction by asking a series of open questions and focus on enterprise's strategic response and social responsibility in market competition. Interviews ranged from half an hour to two hours. Besides, the author makes practical investigation, visiting the enterprise's factories, offices, and farmers in cooperation in order to comprehensively understand the daily operation of the enterprise. All these materials form powerful evidences in the qualitative research mode.

### **4. The discoveries in the research**

#### *4.1 The construction of CSR strategy: from a history view*

##### *4.1.1 The founder's experiences and values serve as the base of today's corporate culture.*

The founder of Wen's Foodstuffs Group, Beiyong Wen's experiences and creeds exert a vital effect on today's excellent corporate culture.

Beiyong Wen has been influenced greatly by Buddhism and Confucianism. And the thought of "loving homeland, people, science, work, and socialism" has been rooted in his mind. The three thoughts form a kind of "Great Harmony" thought in Beiyong Wen's mind. With this thought, Beiyong Wen created Wen's Foodstuffs Group that was born with a "Great Harmony" thought. Therefore, this enterprise would like to shoulder social responsibility in nature.

At the very beginning, Beiying Wen's countrymen wanted to buy some chicken to breed from him. Beiying Wen thought: where did they look for feedstuff after buying chicken? Without chicken-breeding knowledge, how would they do when chicken got sickness? How did they sell the grown-up chicks? Therefore, Beiying Wen put forward a suggestion: the enterprise takes certain subscription and provides with chicken, feedstuff, and medicine; keep relevant records; send people to help farmers breed chicken; the enterprise takes back grown-up chicks and settles accounts finally. By this way, his countrymen can gain profits. This suggestion finally becomes an "enterprise + farmers" mode that contributes a lot to the success of Wen's Foodstuffs Group. It thanks for the entrepreneur's "Great Harmony" thought, hoping to achieve a common prosperity with all farmers. Meanwhile, by cooperating with Wen's Foodstuffs Group, farmers learnt the chicken-breeding technology, knowing how to contact with enterprises, obtaining higher incomes. The independent and self-sufficient farmers become workers in workshops of the industrial chain. Wen's Foodstuffs Group's social responsibility includes: improving local people's knowledge levels and living levels, and the overall social environment. Just as what was said by people: "where there is Wen's Foodstuffs Group, there is agricultural progress and prosperous rural economy."

Pengcheng Wen is the second president of Wen's Foodstuffs Group. He has inherited and developed Beiying Wen's "Great Harmony" thought, taking "to help farmers to get rid of poverty and achieve prosperity" as the aim of enterprise. Confronting with avian influenza and SARS, Wen's Foodstuffs Group keeps promise ("obtain 1 Yuan return at least for every grown-up chick) and guarantees farmers' interests. "The enterprise would rather face up with loss than hurt farmers' interests." It is the spirit of an entrepreneur and the practice of the enterprise. Wen's Foodstuffs Group shoulders the social responsibility of stabilizing the society and supporting farmers.

#### 4.1.2 The corporate governance role

Pengcheng Wen has inherited his father's values, taking "to achieve common prosperity, to benefit employees and the society" as the enterprise's tenet and aim. Enhance the social responsibility idea by corporate culture and integrate the responsibility strategy thought into daily management. Change the management center and decision center from top level to lower level. Gradually perfect organizational structure and put different levels in order. Make clear descriptions for different positions. Construct a set of standard culture scientific management system that focuses on Wen's culture, pursuing for corporate effects and social effects, based on four-leveled organizational structure and powerful computer network.

Under the direction of corporate culture that emphasizes on responsibility, all managers and employees build up correct life aims and values. They work hard and create the prosperity for the enterprise. Meanwhile, the idea of "creating wealth and sharing wealth" gives farmers higher enthusiasm. After the foundation of the enterprise, it developed at a double rate of last year before 1995. From 1995 to 2000, the development rate sustained 50%. After 2000, the rate kept 30%.

### 4.2 The nature of strategic CSR

#### 4.2.1 Emphasize on food safety and environment protection

Wen's Foodstuffs Group always emphasizes on environment protection that is the precondition for the long-term existence of breeding enterprise. Wen's Foodstuffs Group invests more in sewage treatment equipments, trying to construct an ecological circular agriculture. In recent years, it tries to produce firedamp or high-quality organic fertilizer by animal dejection. On one hand, it can help to realize a non-pollution process. On the other hand, it can create a new way for farmers earning new incomes. In a sense, the enterprise shoulders the social responsibility in two aspects: environment protection and food safety.

#### 4.2.2 The loyal cooperation of the enterprise, employees, and farmers

Concerning the aspect of treating employees, Wen's Foodstuffs Group emphasizes on an organic combination of feelings, reasons, and laws according to its cultural management. The enterprise spends lots of capitals in improving employees' working conditions and living conditions. Wen's Foodstuffs Group has already become an overall stock cooperation system from initial partly stock system. Employees are not only workers of the enterprise but also the owners of enterprise assets. The overall incentive mechanism can generate powerful and lasting incentive effects, making employees fulfilling their values physically and spiritually. This mechanism serves as one of impulsion driving the enterprise's development, guaranteeing a twenty-five years' stable and healthy development for Wen's Foodstuffs Group.

Wen's Foodstuffs Group adopts an "enterprise + farmers + sellers" industrialization business mode. Agriculture is a special industry. Considering the different features of enterprises, farmers, and sellers, the enterprise guarantees the returns of farmers and sellers from a strategic aspect. Besides, the returns must be higher than the average of farmers who do not join in the industrial chain. Therefore, the enterprise shoulders the social responsibility for its important

stakeholders. Based on its emergency ability, the enterprise will gain benefits from the industrial system's overall operations, what can achieve a positive interaction among all rings of the industrial chain. Cooperators can buy stocks from the enterprise and becomes its stockholders, who can take dividends in the year-end. To construct a long stable cooperative relationship with all cooperators and turn a pure trade relationship into a partner relationship reflects Wen's Foodstuffs Group's business tenet, common prosperity.

Facing up with crisis, Wen's Foodstuffs Group fulfilled its social responsibility completely. In 2003, China suffered from SARS. The Group was affected severely. In front of the crisis, the Group tried hard to guarantee the products quality, promote products sales, ensure stable cash flow, and make timely capital arrangement. Balance the interests of different cooperators and stabilize business order. Adopt a phase output-reduction plan by decreasing the intensity of breeding. During this period, guarantee all employees' jobs and welfare. Enhance trainings and improve employees' professional technologies. All stockholders, employees, cooperators, and customers hold complete confidence in the Group overcoming the difficulty. At the first half year after the SARS, the enterprise suffered a loss of 182 million Yuan. However, the total gross profits of all cooperative farmers reached 141 million Yuan. These data rightly proved the high credit of the enterprise. This crisis makes the enterprise win farmers' trust again. After the SARS, the enterprise develops fast and gains profits quickly. In recent years, due to the impacts of avian influenza and other crisis, separate farmers quit from the market at a rate of 4%. In contrast, farmers who cooperate with Wen's Foodstuffs Group keep in enlarging their production scale.

Wen's Foodstuffs Group always emphasizes on farmers' training. According to the Group's rules, in order to improve farmers' technological management levels and obtain qualified products, all branch companies must provide with two or three technological training for farmers every year at least. In recent years, there are at least 60 thousand people attending this kind of training every year. Besides, the enterprise also pays attentions to farmers' corporate culture training. By this way, farmers who cooperate with Wen's Foodstuffs Group possess a sharp market consciousness, higher production technologies and management abilities. Some outstanding farmers not only improve their own abilities but also drive many surrounding farmers.

#### 4.2.3 The consistent strategy: copy the successful mode in other regions

The success of Wen's Foodstuffs Group is from the constant copy of the "Wen's Mode". This mode includes: how to build up chicken house, how to develop farmers and customers, how to guide farmers. The enterprise has a set of mature experiences for these issues and right software for farmer management and finance management. Wen's Mode displays its powerful vitality during its copying process.

The growth of Wen's Foodstuffs Group can help thousands of farmers realize well-off life by breeding. Therefore, its expansions in other regions are welcome by local governments. Generally speaking, Wen's Foodstuffs Group's integrated branch companies in other regions can make money in the first year or the second year. The longest term needs three or four years. Based on the "enterprise + farmers" business mode, Wen's Foodstuffs Group achieves fast development. Although industrial crisis appears frequently in recent years, its member companies in other regions still gain relatively fast development. The business exceeds 10 billion Yuan. After twenty-five years' development, its market net covers south China, middle China, east China, and the southwest area. Among the enterprise's member companies, eleven are named as provincial leading companies, and five provincial high-tech companies.

With the "profits sharing and risks sharing" idea, Wen's Foodstuffs Group properly deals with the relationship between the enterprise and farmers. It gains a great success by copying this mode in different regions.

Today, Wen's Foodstuffs Group cooperates with more than ten domestic famous agricultural colleges, such as South China Agricultural University and Sun Yat-sen University, and research centers, realizing a close connection among production, learning, and research, ensuring the enterprise's leading position in technological field. Wen's Foodstuffs Group emphasizes on charity cause. In 1996, it founded a Beiyong Fund to help students in poverty. The Fund surpasses 2 million Yuan now. Every year, the enterprise takes out more than one million Yuan to repair bridges and roads, improve medical conditions and education conditions, and build up nursing homes. All these behaviors gains praises from governments and people. As a result, Wen's Foodstuffs Group builds up a better corporate image, winning higher corporate fame.

### 5. Discussion and conclusion

Because Wen's Foodstuffs Group can shoulder responsibility for farmers in cooperation, the enterprise would rather guarantee the farmers' profits than suffer from losses, though it has faced up with SARS, avian influenza, and other crisis. As a result, the responsible enterprise improves its fame, which further supports the generation of corporate values. The CSR promise greatly enhances the enterprise's credit, what makes its operations become more legal for stakeholders and the society in general. Besides, trust and social capitals make the corporate policies more reliable and believable, which can drive employees to work better. Even if its branch company locates in mountain area, can

it still retain capable and competitive employees. By this way, the enterprise's competitive advantage is improved. Being friendly to other stakeholders can help the enterprise win better living spaces. In the future, the enterprise's social effects and economic effects will be further improved (see figure 1).

Studies show that Wen's Foodstuffs Group is a leading agricultural enterprise with a high sense of social responsibility. The enterprise makes its social responsibility method root in corporate strategy deeply. The corporate founder's creed, values, and experiences form a sound base of corporate responsibility strategy. In corporate governance, the founder's personal values should become corporate ideas, constituting corporate culture. The responsibility strategy thought should apply to daily management, constructing a set of complete regulations and ensuring its effective implementation. Make the "cooperate loyally and pursue for a well-off life" idea influence employees' values and shape their behaviors. Guarantee all corporate activities in order. Realize high products quality and corporate effects. As an agricultural enterprise, the essence of Wen's Foodstuffs Group's strategic CSR is to emphasize on food safety and environment protection, loyal cooperation with employees and farmers, similar business mode in other regions, being friendly to competitors, and caring about communities, media, governments, and social charity in strategy choice.

How CSR evolves in an enterprise is a new study in this paper. Wen's Foodstuffs Group's strategic social responsibility is rooted in its origin. However, people do not notice this point. Besides, CSR does not establish and form relevant files. After the enterprise has developed more than ten years, CSR has become formal and clear. This evolution shows that as the organizational structure becomes larger and more complex, not only does the procedures and control system of management need to be normalized, but also the CSR that affects enterprise's strategies, behaviors, and values should be normalized. Finally, in order to ensure that the enterprise follows the social responsibility road programmed by the entrepreneur, the enterprise needs clear values and moral guidance.

This paper is to focus on a leading agricultural enterprise to make a case study. The study of one case is helpful for deep research on complex phenomenon. Besides, this paper selects a typical enterprise as study object and makes analysis based on data from many aspects. However, whether the conclusions are right for other enterprises and industries or not still waits for further tests by relevant researches on other enterprises and industries in future.

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Table 1. The basic development situation in Wen's Foodstuffs Group from 1984 to 2007.

Year	Broilers in market (10,000)	Hogs in market (10,000)	Farmers in cooperation	Farmers' profits (10,000Yuan)	Number of employees	Total sales of the group (10,000Yuan)
1984	1	—	—	—	10	—
1986	5	—	5	—	39	36
1988	15	—	80	13	42	142
1990	61	—	280	96	69	700
1992	369	—	1500	523	123	4114
1994	1683	—	4600	4100	685	23700
1996	4041	—	6500	9100	1500	65000
1998	8840	1.13	8500	12800	2500	107000
2000	13800	14.3	12000	20500	3256	15900
2001	17800	19.66	15000	24500	5000	220400
2002	22800	35.8	20000	32700	8500	283000
2003	29200	59.78	25000	36900	9000	380400
2004	34600	77.91	29500	47300	11000	550000
2005	40000	95.2	30000	63000	13000	634000
2006	45200	133	30000	71000	15000	760000
2007	53000	181.7	36500	113000	15000	1170000

Source: From Wen's Foodstuffs Group

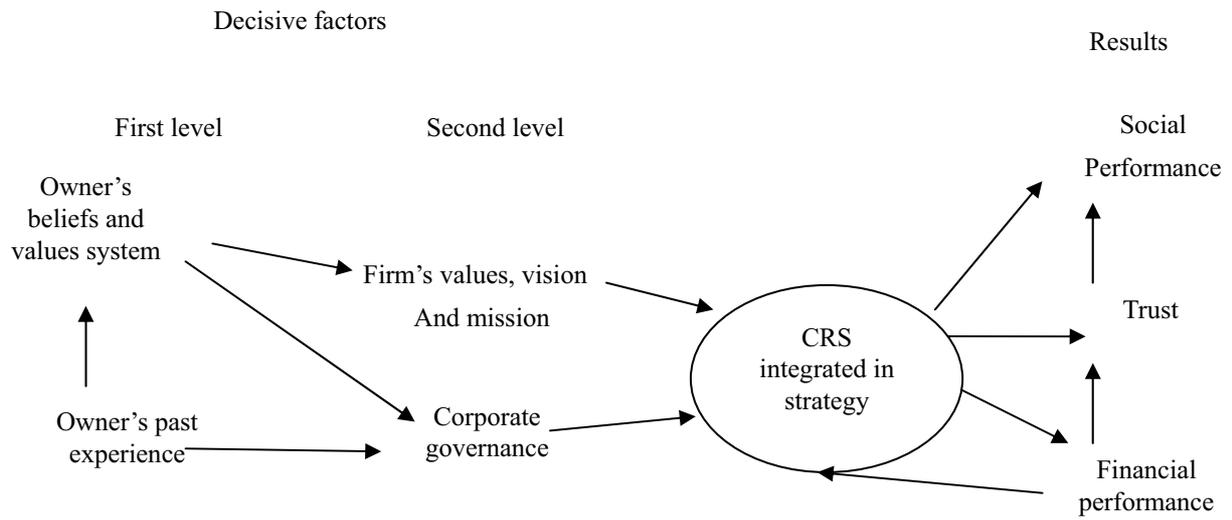


Figure 1. The Frame of Wen's Foodstuffs Group's Social Responsibility Strategy.