

Poverty Alleviation by SOEs in China: Is it a Substantive Corporate Social Responsibility and How it Performs?

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Abstract: This paper analyses the essential characteristics of poverty alleviation management in state-owned enterprises (SOE), and explains from the perspective of shareholders' interests that the participation of SOEs in poverty alleviation is a substantive social responsibility, which is of great significance to the enterprise itself and to the whole society. Based on this, by comparing the difference between the Central SOE Poverty Alleviation Fund and the traditional government's poverty alleviation, we summarize and refine the concept, mechanism, model and management method of SOEs' participation in poverty alleviation, which further proves the important value of SOEs' direct participation. The result provides an important reference for further promoting the better implementation of poverty alleviation by SOEs.

1. Introduction

China has put forward a strategy to fight against poverty, emphasizing that winning the battle against poverty is a major measure to ensure that all the people share the fruits of reform and development and achieve common prosperity. State-owned enterprise (SOE), according to their unique nature, has undertaken a large number of key tasks of poverty alleviation. For example, the central SOEs had raised 11.6 billion yuan to set up a poverty alleviation fund to support poverty alleviation projects since 2016. In 2018, State-Owned Assets Supervision and Administration (SASAC) even proposed that central enterprises should be the greatest force to fight poverty. This kind of action has aroused great concerns and faces the social debate that how to play the role in poverty alleviation of the large scale enterprise, especially the SOEs? In fact, this problem is not a new top since more than 10 years ago (Kolk, 2006). Should SOEs, as enterprises, shoulder such a heavy task of poverty alleviation? How to understand China's current poverty alleviation task from the perspective of CSR? How do SOE directly participate in poverty alleviation nowadays? Is there a successful model and significance?

This paper first discusses the status and necessity of SOE implementing poverty alleviation in the aspect of CSR. Secondly, taking the Central SOE Poverty Alleviation Fund as an example, by comparing with the traditional government poverty alleviation, this paper analyses the main

industrial poverty alleviation measures, puts forward the industrial poverty alleviation model, and probes into the value and significance of the participation of the SOEs.

2. The Position of Poverty Alleviation in SOEs from the Perspective of CSR

Studies have shown that poverty alleviation is an important public welfare activity of enterprises and plays a certain role in brand value (Osuji, 2016). However, most studies also show that poverty alleviation is not a substantive social responsibility (Mao, 2012). Compared with other aspects such as employee practice, supply chain management, organization governing and consumer issues, the value to the enterprises own from poverty alleviation is limited and should not be an important part of social responsibility (Okpara, 2012). According to the connotation of substantive social responsibility, it is the important responsibility that is of great value to enterprises and important stakeholders. From this point of view, we need to clarify that whether poverty alleviation is substantive CSR to the SOEs.

According to the ‘Constitution of P.R China’, the assets of Chinese SOE belong to all the Chinese people, whose principal-agent power is given to SASAC or the Ministry of Finance. Therefore, all the Chinese people are the real shareholders of SOE, and among them, the poor population are the targets of poverty alleviation. Normally, the profits of SOE should be submitted in a certain proportion as capital returns, then the government will redistribute the profits to the society. While SOE directly participate in poverty alleviation, it shortens the procedure of capital surrendering and secondary distribution, and supporting poverty-stricken areas directly. The poverty alleviation implemented by SOE with the form of industrial support follows the market rules much better than government. Therefore, the direct participation of existing SOE in poverty alleviation is an important substantive area of social responsibility, see Figure 1. This clarification about the SOE input in poverty alleviation helps us to have a clear understanding of the status of poverty alleviation to the SOEs, so as to better implement the state's policy requirements for SOEs and effectively carry out the strategies and measures.

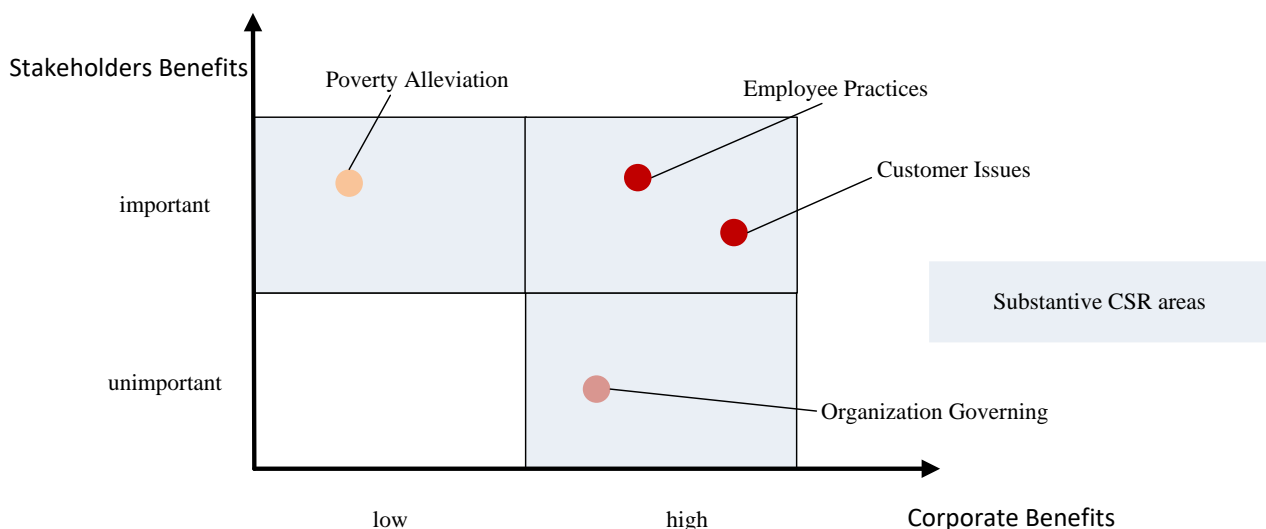


Figure 1: The example of SOEs’ substantive CSR including Poverty Alleviation

3. The Poverty Alleviation Strategy and Performance of SOEs

At present, the participation of SOEs in poverty alleviation is deep and extensive. According to the report (the People’s Daily, 2018), by the end of 2017, 246 key counties in poverty alleviation had been assisted in pairs by central SOEs , accounting for 42% of the total number of poverty-stricken counties at the national level. Among them, the most distinctive assistant way is the Industrial Investment Fund for Poverty-stricken Areas of Central SOEs ("Central SOE Poverty Alleviation Fund"), which was set up by the SASAC, initiated by the Ministry of Finance and co-financed by the Central SOEs. Since its establishment, it has actively served the national strategy of poverty alleviation, and promoted the industrial development of poverty-stricken areas through market-oriented and sustainable operation in order to drive the poor people get out of poverty accurately. By the end of August 2018, the Central SOE Poverty Alleviation Fund had invested 55 projects in key industries such as agriculture, minerals, manufacturing, parks and tourism, which were badly in need of development in poverty-stricken areas, amounting to 11.6 billion yuan, covering 27 provinces, 90 municipalities and 160 counties, and covering 14 concentrated areas with special difficulties (Xinhua News Agency, 2018). After the investment projects are fully put into operation, it is estimated that 200,000 poor people will be able to obtain direct or indirect employment, with annual income of 1.26 billion yuan for the poor and annual tax revenue of 1.1 billion yuan for the local governments. By comparison with the traditional poverty alleviation ways, we found significant differences between SOEs and traditional governments in terms of poverty alleviation concepts, poverty alleviation models, poverty alleviation methods and poverty alleviation paths, which shows in Figure2.

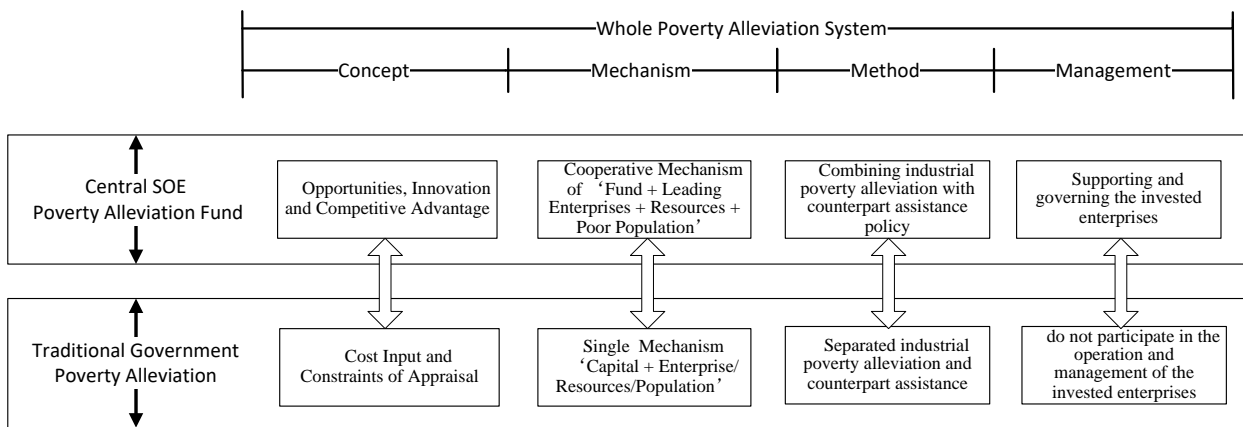


Figure 2: This comparison of Central SOE Poverty Alleviation with the traditional government Poverty Alleviation

- Focusing on the sustainability of CSR with the concept of poverty alleviation

The Central SOE Poverty Alleviation Fund combines the national strategy with the market-oriented mechanism organically. During the operation, the fund also promotes social capital to invest in industries with characteristics and development potential in the poor areas, which realizes its own sustainable development while supporting industrial development in poverty-stricken areas (Daw, 2011). For poverty alleviation funds, social responsibility is no longer a cost or a constraint, but a source of opportunity, innovation and competitive advantage. This kind of economic motivation based on inclusive development is the fundamental driving force to promote SOEs to fulfill their social responsibility from heteronomy to self-discipline and eventually to self-

consciousness. Thus, to the SOEs in China, the concept of poverty alleviation is promoting the Sustainability of Corporate Social Responsibility.

- Constructing a new cooperative poverty alleviation mechanism

How to construct an effective cooperation mechanism among government, community, social groups and poor groups is the key to the transformation of poverty alleviation from ‘blood transfusion’ to ‘hematopoiesis’. Aiming at the characteristics of resource endowment in some poverty-stricken areas but lack of competitive enterprises, the Central SOE Poverty Alleviation Fund promotes the cooperation mode of "industrial Fund + leading enterprises + resources in poverty-stricken areas + poor people". By attracting central SOEs or private enterprises to jointly develop local resources in poverty-stricken areas, the technology, brand, channel, management and personnel of leading enterprises are introduced while introducing funds. While the poor people were lifted out of poverty through various interest linking mechanisms such as land rent, wages for working and share-holding. This cooperation mode fully exerts the investment-oriented advantages of the poverty alleviation fund, the specialization advantages of leading enterprises and the resources advantages of poor areas, so as to achieve win-win results (Zhu, 2018). It is obvious that the Central SOE Poverty Alleviation Fund constructs a new cooperative poverty alleviation mechanism

- Combining industrial poverty alleviation with counterpart assistance policy

Although industrial poverty alleviation is helpful to enhance the self-developing ability of poverty-stricken areas, due to the serious information asymmetry between the investor and the invested enterprises, it is easy to cause structural contradictions such as excessive subsidies, insufficient supply and demand and helping the rich instead of the poor, and consequently it is difficult to guarantee the investment efficiency and accuracy. To solve this, the fund combines industrial poverty alleviation with counterpart assistance policy, and dispatches many qualified managers to counterpart poverty-stricken counties, townships and even villages to conduct industry market research and demonstration analysis according to local conditions, and selects potential industry projects. Through investigating and analyzing investment projects, due diligence, pre-investment standardization and post-investment management by this SOE managers, precise guidance, docking and mapping of investment performance of poverty alleviation funds are effectively realized.

- ‘Supporting and governing’ the long-term development of invested enterprises

Market-oriented equity investment funds are mostly financial investors, who generally do not participate in the daily operation and management of the invested enterprises. However, the enterprises in poverty-stricken areas invested by the Central SOE Poverty Alleviation Fund are generally small in scale. There are some practical problems such as immature corporate governance structure, irregular financial management and unstable development model. It is hard to guarantee the expected investment income. In view of the above situation, the Central SOE Poverty Alleviation Fund pays more attention to supporting ‘governance’ while supporting ‘capital’, and provides value-added services for the invested enterprises from the aspects of financial management, business development, refinancing, personnel training and Party building by means of platform operation, information management and refined consultation’. At present, more than 80% of the projects have maintained stable and healthy operation after the entry of the fund. More than half of the projects have realized the follow-up equity and creditor's rights refinancing, which has laid a good foundation for the sustainable development and growth of enterprises.

4. Conclusions

Through the above analysis, we find that there are some misunderstandings in the past about the participation of SOEs in poverty alleviation. SOEs should be rightly and vigorously involved in the national poverty alleviation strategy as an important force. From the point of view that the shareholders of SOEs are the whole people, we have proved that the participation in poverty alleviation is the substantive social responsibility of SOEs. Through an in-depth analysis of the case of the Central SOE Poverty Alleviation Fund, we summarize and refine the remarkable differences between the Fund and the traditional government poverty alleviation model in such aspects as the concept of poverty alleviation, the mechanism of poverty alleviation, the method of poverty alleviation and the means of management. This explains why SOEs can achieve better results in poverty alleviation, and also proves the correctness of the policy of direct participation of SOEs in poverty alleviation. It provides a scheme for SOEs to better implement poverty alleviation in the future.

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