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Enterprise Hegemony and Embedded Hierarchy Network:

The Political Economy and Process of Global Compact Governance in China

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Abstract

To understand and explain if the Global Compact initiatives really attract enterprises and how they could achieve the aims of making the enterprises self-regulatory, we must examine the motivations of the participants and determine if they changed their behaviors after joining the initiative. This paper investigates the determinants of Chinese enterprises' attitudes toward the United Nations Global Compact (UNGC) using interviews and data analysis of the Chinese participants of the UNGC, the Global Compact Local Network (GCLN), and government officials. The paper also assesses the role of hegemony enterprises and the embedded hierarchy network in the UNGC governance. By insourcing the hegemony enterprises and outsourcing the "Regulatory Standard Setting" (RSS) institute network within the regional political system, the UNGC can achieve the aim of global governance.

Key Words: Enterprise Hegemony; Embedded Network; Enterprise Hierarchy; Global Compact; China

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Introduction

There are so many different institutional elements in global governance. The UN, WTO, WB and IMF stand out as examples of negotiated agreements in which governments need to muster the will to implement global governance agreements post- negotiation. In reality, such agreements are implemented through contentious cases and advisory proceedings at the international law level. Both try to govern global affairs by enforcement from states, however, many of our international objectives cannot be met by such compulsory requirements. Since the 1980's, more and more RSS institutes have emerged. These RSS institutes are shaping a new route of global governance------ using private regulators to manage the world. Global standards are becoming the new method of global governance. But RSS institutes are easy to be captured and global standards face a dilemma without state support. Enforcement imposed from outside has not attained success leading many influential think tanks to propose a new approach to global governance. Why not make global governance self-regulatory?

The Global Compact was operationally launched on 26 July 2000 after the then-UN Secretary-General Kofi Annan proposed to business leaders to initiate a Global Compact of shared values and principles at the World Economic Forum in Davos in January 1999. The Global Compact is "a network-based and CEO-led, multi-stakeholder initiative working globally and locally"[2]and is already the largest corporate responsibility initiative in the world, with currently more than 9,000 participants in over 130 countries as of December, 2011. The UNGC believe that:

"Never before in history has there been a greater alignment between the objectives of the international community and those of the business world, such as building markets, combating corruption, safeguarding the environment and ensuring social inclusion, have resulted in unprecedented partnerships and openness between business, governments, civil society, labor and the United Nations."[3]

At the time of its launch, the Global Compact received much criticism from scholars. Fransen and Kolk argue it is very difficult to tell what a 'good' and 'appropriate' stakeholder is so any attempt at assessment of value is complicated and unlikely to be successful.[4] Moreover, because the Global Compact is less of self-assessment mechanism and is of a toothless initiative, the role of business in global governance remains limited.[5] Danier Berliner and Aseem Prakash insist that norms could shape firm's policy only when they get translated into concrete programs but the Global Compact use NGOs and INGOs through embedded networks to fill its goals. This approach is failing because "in the case of the Global Compact, IGO networks appear to prefer more inclusive programs while INGO networks place greater value on program integrity."[6] Many others, however, do not agree with this assessment. They argue that a firm's 'reputational accountability' will promote the rights of 'global citizenship' because the principles of the Global Compact encourage global citizens to sign the Compact in order to develop a good reputation.[7] To some degree, the Global Compact is creating

[2] Rasche & kell 2010, 1, 5.
[3] UN Global Compact Office 2008, 2.
[4] Fransen & Ans Kolk 2007, 667-684.
[5] Whitehouse 2003, 299-318. Nason 2008, 418-425. Arevalo & Fallon 2008, 456-470.
[6] Berliner & Prakash 2012, 149-166.
[7] Kuper 2004, 9-19. Kell 2005, 69-79. Bennie, Bernhagen & Mitchell 2007, 733-753. Bernhagen & Mitchell 2010, 1175-1187.

"soft law" in an effort to change business behavior little by little.[8] This may make the standard blur and lose its appropriate norm. Andreas Rasche and George Kell argue that because of its CEO-led character, truly global, involving small and medium-sized enterprises and larger companies and enjoying wide government support, the global compact could be considered a new style of cooperation between the business community and the United Nations, but not as a substitute for what governments seek to achieve through regulation. Corporate responsibility is proactively embedded in organizational processes and related to concrete business practices that shape the CSR agenda in spite of the absence of stronger implementation and specialization. They believe that the changes in development are political rather than technical processes. Global Compact governance is a strategy or idea that remains unique.[9] Over all they focus on two issues: first, whether ten principles of the Global Compact are weak norms (UNGC governance the enterprises by its principle without standard and enforcement) or shared norms (UNGC exploits global standard which created by RSS institutes); and second, what kind of a program design is best.

Given the prominence of these debates, scholars have assumed that the ten principles and the program design are linked through a kind of interactive causality, the UNGC faces a dilemma situation: either of the weak norms the UNGC is less enforceable and easier to fail; or, because of the shared norms, the UNGC is not a fixed program and easy to accept. However, just as the ten principles of the Compact are only principles without standardization, the Compact cannot design the governance regime by itself. Instead, the Compact will be shaped by the various regional business and political environments. What's more, scholars discuss the relationship between the Compact and the INGOs and NGOs by looking at whether the Compact receives support from the INGOs and NGOs or not, but they do not focus on the substitute relationship between them. So, how do the principles encourage the firms to sign the Global Compact among so many competitors, or why they chose to sign the GC at the same time to join other RSS institutes? How does the regional business and political environments shape the process of the Global Compact governance? These questions need to be investigated.

In this paper, the author maps the path of Chinese firms signing the Global Compact and investigates how the Chinese political and economic environment shapes the process of the Global Compact in China. The rest of this paper will consist of five sections. In Section 2, it discusses the two self-regulatory hypotheses under UNGC framework. In Section 3, it discusses the motivations of the participants of the UNGC to join. In Section 4, it elaborates on the function of hegemony enterprise in the process of the UNGC governance. In Section 5, it describes how the UNGC work in China. Section 7, it concludes.

Information, Leadership and the Political Process of Hegemonic Governance

The self-regulatory institutions are viewed as RSS and refer to five tasks (Agenda-setting, Negotiation of standards, Implementation, Monitoring, and Enforcement-ANIME) in the regulatory process.[10] However, as the principle initiative, the UNGC does not focus on the process of governance step by step. What the UNGC cares about is having firms join the program and build networks among participants. So, how could we understand the UNGC framework and what factors

[8] Mercer 2009.
[9] Kell & Levin 2008, 151-181. Therien and Pouliot 2006, 55-75. Hale 2007. Rasche & Kell 2010, 1-21.
[10] Mattli and Woods 2009, 45-46.

will work and enable the participants to implement its CSR? These are two issues to be clarified in order to answer these questions.

What actors are in or out at key junctures?

The RSS institutes involve multiple stakeholders. It appears that any actor could play a very important role in the regulatory process but in reality only the companies play the key role in the process because the mechanism is designed on the basis of market-based precepts. Without the companies' activities, the monitoring process is so easy to be unrepresented by the indicators which the RSS institutes designed themselves. For example, which chemical element of the paint of the ship bottom will poison the ocean creatures? Only a large company which has long shipping history could perhaps answer this question. They are familiar with the ecosystem of the ocean and experienced as to what type of fish are likely to be poisoned.

At the same time, because of the nature of the initiative, government at domestic level and governance at the international level or inter-governmental level are inefficient to some degree. Companies face lower risk and costs for not obeying many of the initiatives. From the purely economic perspective, companies may not join the initiative to pursue economic benefits.

Naming and shaming are ineffective in making companies join the UNGC initiatives. The Business Human Rights Resource Centre---the UNGC partner--- monitors the UNGC participants through media. When they find violations by Chinese companies they require them to change their behavior or to provide explanations. Otherwise the Business-Human Rights Resource Centre will publish the story on their website to "shame" the companies. More than 71% of companies in China failed to respond to such requests (more than 50% of companies in the world did not respond).[11] When the agent of the UNGC tries to persuade very big companies in the U.S.A. to sign the UNGC and hinted that naming the companies as a signatory will benefit the companies, most of them refused to sign the UNGC.[12] As argued above, we believe that the motivation of joining RSS institutes does not generate participation as presumed from outside forces.

Since the high information cost, "entrepreneurs will be most successful in changing regulation where they can form a broad coalition against defenders of the status quo. To this end, a shared set of new ideas about how to regulate will often be crucial."[13] The larger the company is, the more specialization the company has, the more the company has a monopoly on the information of how to regulate in this industry. Hegemonic enterprises[14] have enough information in the game and the ability to create hegemonic discourse and enforcement. So, big companies play a key role and normally act as leaders in the industry.

Hypothesis 1 Different size of the enterprise has different role in the RSS institutes. The most important actors are the hegemonic enterprises in the regulatory process. The dynamic of the hegemonic enterprises sign the UNGC just for political reasons.

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[11] Author's Email interview with Joanne Bauer, who is a senior researcher at Business & Human Rights Resource Centre and adjunct professor of International and Public Affairs, Columbia University at New York, April, 2012.
[12] Author's interview with Meng Liu, Global Compact Office, United Nations, New York, March, 2011.
[13] Mattli and Woods 2009, 4.
[14] Hegemonic enterprises would supply public product, it would create rules, norms and standards, it would monitor the process of governance and force the other firms follow the rules, norms and standards by using its power.

What shapes the process of self-regulation?

As argued above, the enterprise will be the one to fill the gap between the state and international governance. Different political status of enterprises has different power in the local network of the UNGC (GCLN). The most important actor is the hegemonic enterprise among the multiple stakeholders in private regulation.

However, enterprises will have different influence under different political systems. Hierarchical and coordinated domestic systems will empower the enterprises of the whole country at the global level but fragmented domestic systems will not.[15] In China, the UNGC will face a hierarchical and coordinate domestic system, what they should put more attention to is that firms have different political status. Both the political system and the firm system shaped the regulatory structure and shape the regulatory process.

Recently, some scholars began to emphasize this fact. They investigated how the Chinese political environment affects sub- and non-state actor participation in transnational climate governance from the perspective of fragmented authoritarianism,[16] they are right if they just discuss the delegation of Chinese government and the conflict of policy among the governmental units. But if discussing the regulatory governance from enterprises---the most important player, at least at the UNGC governance level--- hierarchical and coordinated domestic systems reflect the real situation. This is because Chinese enterprises have their own special political system: different enterprise has different political rank and supervised by different level government, the political system has translated into enterprises structure in China. The effectiveness of outsourcing of RSS institutes and insourcing hegemony enterprises regulating the others depends on the structure of the power of the participants in the regional political system and the regional political system will shape the GCLN.

Hypothesis 2 Being as a principle-based initiative, the UNGC needs to be supported by the GCLN (outsourcing---the UNGC would procure the standard, laws of governance from other institute of the GCLN;) and hegemonic enterprises (insourcing---the UNGC would use the hegemonic enterprises to provide the norms or standards in certain industry), and the regional political and business environment will shape local network regulatory processes.

So, this paper’s strategy is to examine and evaluate the relationship and interaction between the political structure of the actors and the political system of the country.

Membership, Interest and Preference

As an initiative, the UNGC is an international agreement open to every unit if they would like to be a participant. The cost of signing the UNGC for the companies includes an application letter, financial contributions[17] and the annual Communication on Progress (COP), which is, integrated in its

[15] Buthe and Mattli 2011, 13.
[16] Hale, Thomas, and Charles Roger. 2012. Domestic Politics and Participation in Transnational Climate Governance, Paper presented at International Studies Association Annual Convention, April 1-4, 2012, San Diego, CA.
[17] Participating companies are asked, upon joining, to make an annual financial contribution to help support the work of the UN Global Compact. Suggested annual contribution levels are set as follows: USD 10,000 for companies with annual revenues of USD 1 billion or more; USD 5,000 for companies with annual revenues between 250 million and USD 1 billion; USD 500 for companies with annual revenues of less than 250 million.

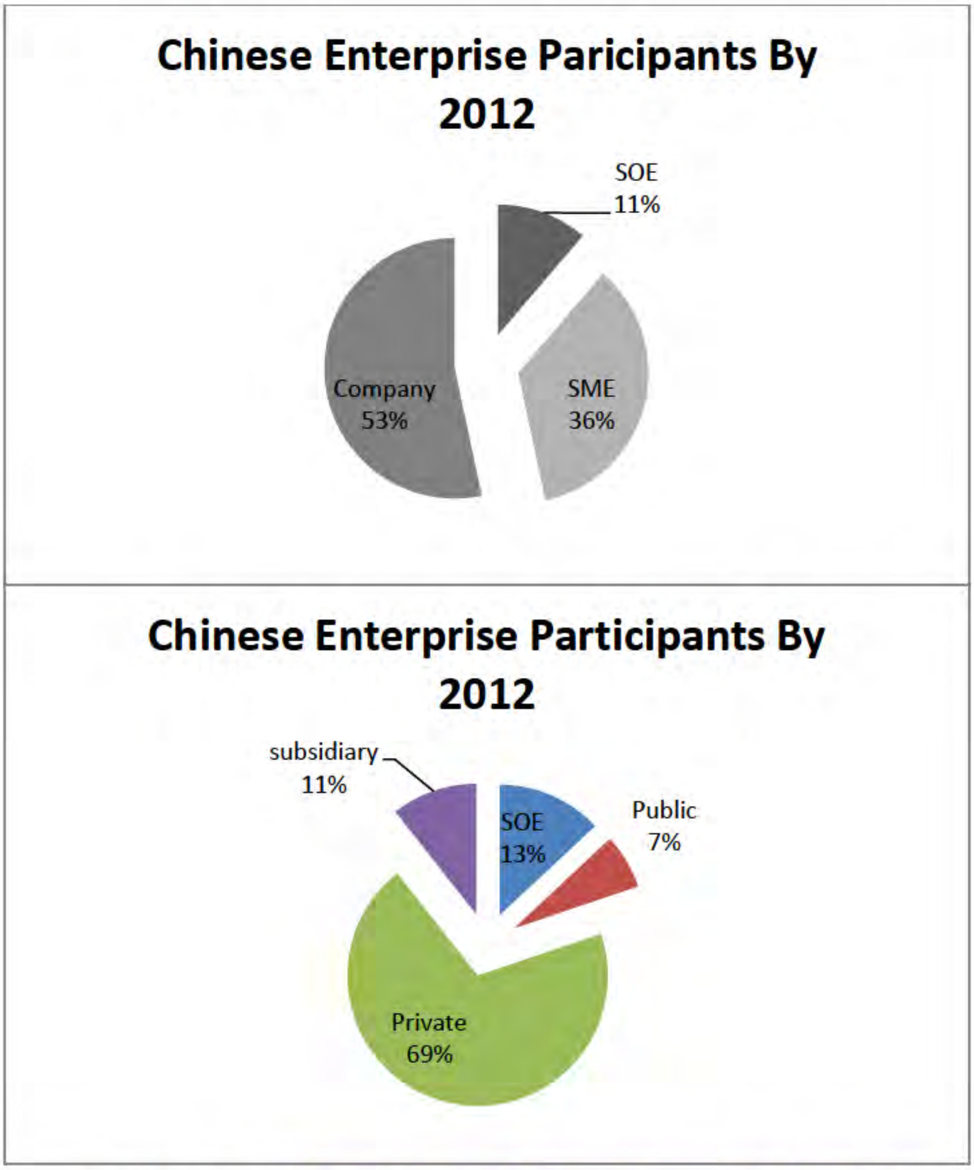
annual report (or in a similar public document, such as a sustainability report). It describes the ways in which it implements the principles and supports broader development objectives.[18] Compared with the gigantic negotiation costs of joining the WTO and the voting right cost of offering funds to the IMF, the cost of signing the UNGC is very minimal. What's more, there is no qualification examination to the participants or follow-up investigation of their COP as well. It is different with the certification from RSS institutes. For example, the SA 8000. Applicants are not expected to change their behavior in order to sign the GC, and even do not change very quickly or deeply after signing the GC. Therefore, we need to understand two puzzles first: because incourcing and outcourcing are the path of UNGC governance its' participants, and incourcing governance depend on the hegemonic enterprises providing public product and outsourcing depend on the UNLC providing public product, so who are the members who really want to self-regulate? Who are the important participants which the UNGC encourages to sign the GC?

Who are the self-regulators?

There are 275 participants, including 38 non-business participants of the GC from China as of March, 2012. These participants can be divided into three groups: Companies (more than 250 employees), Small and Medium enterprises (SMEs) (less than 250 employees) and non-business participants. There has been a major expansion of membership of companies and SMEs in China. The chart below shows the expansion of membership of the companies and the SMEs in China.

[18] The Corporate commitment: 1) make the UN Global Compact and its principles an integral part of business strategy, day-to-day operations, and organizational culture; 2) incorporate the UN Global Compact and its principles in the decision-making processes of the highest-level governance body; 3) engage in partnerships to advance broader development objectives (such as the MDGs); 4) advance the UN Global Compact and the case for responsible business practices through advocacy and outreach to peers, partners, clients, consumers and the public at large.

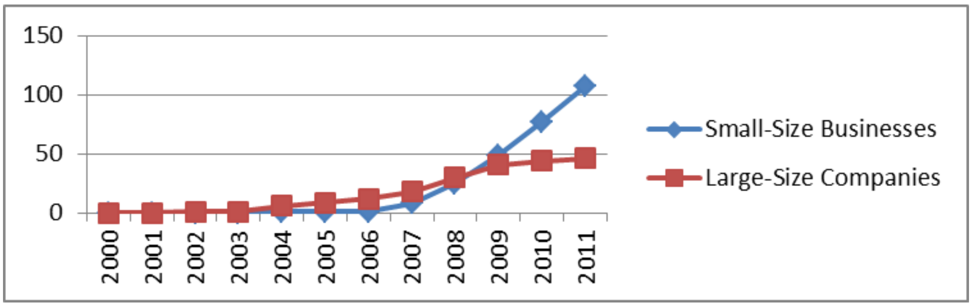
Figure-1 the component of Chinese Participants of UNGC By 2012



Data Resource: http://www.unglobalcompact.org/AboutTheGC

Based on these figures, SOEs have taken less responsibility than the small participants and the private enterprises have taken more responsibility than others. What's more, the SMEs are taking more responsibility than the larger ones based on the following figure:

Figure-2 the number of small and large-size participants of UNGC 2000-2012



Data Resource: http://www.unglobalcompact.org/AboutTheGC

Actually, we cannot find out the meaning of the member expansion from the above two curves because the classification like that is oversimplified. Even the UNGC divided them into private and state-owned enterprises or SMEs and companies at the same time. Companies which have more than 1000 employees are still considered to be a small company in China.[19] There are 122 CSOEs, 156323 SOEs, and more than 6 million other kinds of firms including more than 5 million private firms by 2012,[20] it is very hard to believe that the private firm participants take more CSR from the perspective of what percent they account for of total private firms in China.

Normally, Chinese companies are classified by their capital source and are put into four groups: Central Government-owned enterprises (CSOEs), State-Owned Enterprises (SOEs) supervised by local governments, FDI, and private companies. By this standard we find the following:

Table-1 the number of different Chinese business participants of UNGC by capital source.

	CSOEs	SOEs	FDI	Private
Number	18	13	41	153

Data Source: http://www.unglobalcompact.org/AboutTheGC; http://www.stats.gov.cn/; http://www.sasac.gov.cn/n1180/index.html.

From this table, we can conclude that private companies in China have more incentive to sign the UNGC and to take more responsibility. But, this does not reflect the reality. In fact, different level participants have different incentives to sign the UNGC. There are three different explanations. First, the implementation responsibility. This could account for the signing of the CSOEs and few other kinds of companies as far as the CSOEs are concerned. This kind of participant want to release the information that they have taken responsibility, they have more incentive to care about the image of company and they also want the other companies follow them. They publish CSR reports annually and they have already accepted the GRI, ISO 26000 standard. They also would accept the guideline from the UNGC.[21] Second, articulating alternative discourses of power. Another reason to sign the

[19] Author's interview with Sun Yuping, the vice director of Rongzhi CSR Institute, Beijing, March, 2012.
[20] National Bureau of Statistics of China, 2012. Available from <http://www.stats.gov.cn/tjsj/ndsj/2012/indexch.htm>.
[21] Author's interview with a researcher of Rongzhi Institute, Beijing, December 2011.

UNGC is that the CEOs of the CSOEs and some officials insist that the standards should not be supplied by the Western countries and that Chinese enterprises should acquire more rights and work platforms. The UNGC provides many chances to interact with IO, NGO, companies, and even the officials from other countries. [22] Third, using the logo of the UNGC.[23] Most private companies and FDI companies, as well as many SOEs belong to this kind of participation. They want to be suppliers for MNCs. Many MNCs force their suppliers to sign the UNGC meaning the suppliers have no choice but to join. Sometimes, the local governments also forces companies supervised by them to sign the UNGC as a way of showing government's achievements.

What has happened after those participants signed the UNGC? After conducting fieldwork in China in 2011 and 2012, we found that there are three different results. First, some did not change their behaviors at all. Most of the private companies and SMEs did not even know the ten principles of the UNGC in spite of having signed it. A manager of a small private company said, "I don't care about the environment and global warming, you see, the USA as a great power also refused its responsibility and did not sign the Kyoto Protocol, and the action of Canadian Government in Durban Conference was to avoid the issue. Why does the UN require my small company to have this responsibility? " Second, some changed but only a little. These kinds of participants are the larger companies, including some public companies. However, the changes they made are for doing charity and planting trees. They did not publish a CSR report and seem not be familiar with the UNGC.[24] Third, some firms changed a lot. Most of CSOEs are this kind of participant. However, they signed the UNGC, and also accepted the GRI, ISO26000, SA8000 and Equator Rules etc. But, as a higher ranking official of a CSOE noted, "it is so hard to say, which ones changed this behavior".[25]

The above description, in spite of the difficulty to get the data to identify how much the UNGC impacts the CSOEs, leads us to conclude that the CSOEs are the most important member who wants to play an important role in the UNGC.

Interest and Policy Preference

Needless to say, the CSR are becoming more and more important within the framework of globalization. Governments, IOs, NGOs and the businesses themselves are all trying to find a way to monitor the businesses implementing the CSR. Because there are no compromises on how to force the businesses implementing the CSR in international arena, those units carry out different policies achieving their aims. Because of the openness and toothless nature of the UNGC, the participants are not expected to change their behavior soon, even after signing the Compact. Since there is less internal motivation to change their behavior, what impact do external forces have on participants changing their behavior? Do external constraints shape the process of self-regulation under the UNGC or not? In China, different companies encounter different policy constraints coming from outside.

[22] Zhecheng Feng, 2011. An introduction of Chinese Enterprises Go Out Strategy and CSR. Discourse presented at the Conference of Chinese Enterprises Go out Strategy and CSR of National Energy Bureau of China, December, Beijing, China. Sheng Chen, 2012. An introduction of CSR of China Banking Industries. Paper presented at the Conference of China Bank Industry and CSR of CBRC & Tsinghua University, January, Beijing, China.
[23] Author's interview with a researcher of Rongzhi Institute, Beijing, December 2011. Author interviews with Han Bin, an officer from CEC, Beijing, March 2012.
[24] Author's interview with a staff from Nanche Group Company litd. Changsha, China, January 2012.
[25] Author's interview with Zhang Yaozong, the director of CSR office of Huaneng Group, Beijing, December 2011.

First, CSOEs receive pressure from the Chinese government. The government believes that the better image of Chinese enterprises is beneficial to develop good relationships in the international business environment, and promote the image of the whole country.[26] In 2008, the SASAC (State-owned Assets Supervision and Administration Commission of the State Council of China) and the CBRC (China Banking Regulatory Commission) command the CSOEs supervised by them to publish a CSR report before 2011, and the central government hopes these guidelines will "comprehensively implement the spirit of the 17th CPC National Congress and the Scientific Outlook on Development, and give the impetus to state-owned enterprises (SOEs) directly under the central government (referred to as CSOEs hereafter) to earnestly fulfill corporate social responsibilities (CSR), so as to realize coordinated and sustainable development of enterprises, society and environment in all respects."[27] Second, the SMEs receive the pressure from its supply chains. For example, Schneider China announced that Schneider supplier must be the participant of the UNGC if the company wants to keep business relations with it.[28] Sometimes the local governments also command the company which registered in its domain to implement the CSR.[29] Third, the companies in between, always receive the pressure from the media. Because the CSOEs and SOEs always have more political power than media in China, the government also monitors the media to help the SOEs which supervised by it, the media have limited influence at this level. Actually, most of important media are belongs to the SOEs, they have to follow the preference of government at most of time. Thus, few SOEs receive critics from the media when they actually did not take the CSR. As far as the small firms, they are so small that they are not considered as the ones who should take the CSR perfectly. Thus, the media put most of their attention to the medium firms. In fact, the media enjoys a lot of power to monitor these companies. For example, the Southern Weekend (Nanfang Zhoumo) cooperated with several government units and Internet Medias to launch a competition to determine whose CSR report is the best among the list companies.[30]

Based on these constraints, we can conclude that the SMEs which are the suppliers of MNCs have a strong incentive to sign the UNGC and the CSOEs are under the same situation. The others have less incentive to sign the UNGC. Signing the UNGC and publishing the COP of the GC means nothing about whether the CSOEs achieved great progress in CSR. However, the CSOEs have already changed their behaviors before and after they signed the UNGC, because they use more rigid standards than ten principles of the UNGC to implement the CSR and publish the CSR report. More than 500 companies published CSR reports as of 2009 in China. This means that many large companies follow more rigid standards than the UNGC. As far as the SMEs, few of them have CSR section and specialist, they did not know how to write a CSR report and they also could not afford the cost to complete it successfully. For them the simple COP without enforcement provisions is their best choice.

[26] Zhang Yanning, Vice Chairman of China Enterprises Association & China Entrepreneur Association, the discourse on CSR in China international forum, Beijing, June 29th, 2007. 企业社会责任在中国 2007 企业社会责任在中国中国企业联合会、中国企业家协会常务副会长张彦宁在"2007 企业社会责任在中国"国际论坛的致辞，2007 年 6 月 29 日。Available from <http://www.cec-ceda.org.cn/ldgx/info/content.php?id=1236>. Zhang DeJiang, Vice Prime Minister of China, the discourse on CSR directors meeting of the central SOEs, Beijing, December 19, 2011.张德江在中央企业负责人会议上的讲话，2011 年 12 月 19 日。Available from <http://www.gov.cn/ldhd/2011-12/19/content_2023893.htm> .

[27] China, SASAC. 2007.

[28] Author's interview with Sun Yuping, the director of Rongzhi Institute, Beijing, December 2011.

[29] Author's interview with a researcher from Rongzhi Institute, Beijing, January 2012.

[30] Nanfang Daily (Nanfang Zhoumo), 2011. Available from <http://vote.infzm.com/vote/viewSingle/csr2011/272>.

Briefly summarized, this paper suggests that the SMEs are not very interested in CSR under the UNGC framework; they just want to use the logo and keep the COP of the UNGC as simple as possible having never to enforce it. The companies which aren't controlled by larger companies don't treat the requirements of the UNGC seriously. For the CSOEs, they think the ten principles of the UNGC are very easy to comply with. The CSOEs also prefer to translate the ten principles into standards which could be identified by indicators; it is so easy to do that for them and therefore could stop the free ride by the SMEs which prefer to sign a toothless agreement.

Leadership, Power and Influence

Given the arguments above, it is surprising that the CSOEs which have small numbers of participants in the UNGC are the actors who really want to play an important role. From another perspective, the CSOEs are just the ones which the UNGC want to cooperate with because only this kind of company could supply public products and have enforcement power.

Insourcing: Enterprise Hegemony

The UNGC is a principle based initiative, compared with the GRI, ISO26000 etc., and the COP which it supplements is too simplistic. At the same time, the COP unlike the GRI and SA 8000 is more a private setup, the latter needs to pay some money to those NGOs when the companies use it or get certification from them. The UNGC attempts to provide public goods to achieve the aim of self-regulation, this doesn't mean that it will achieve private sector support for its aims.

As far as the institutional self-regulation is concerned the UNGC has four shortcomings. These shortcomings result in limited influence on its participants. First, the ten principles are expressions of ideas. It is very difficult to put them into practice. The COP of UNGC encourages its participants to have COP, and borrow the GRI indicator as a guide to the COP. However, most of the larger companies and SMEs are clumsy with how to create a COP by themselves. Just like a specialist of CSR said, the UNGC should translate the ten principles into standards and then the SMEs could know what they should do.[31] Second, there are very limited specialists of CSR in the UNGC. That's the reason why the GCLN and many companies don't believe the UNGC; they think the UNGC is not able to benefit them. Third, without enforcement, few participants are required to change their behavior in spite of them being signatories to the UNGC initiative. However, the UNGC believes itself to be a unique initiative and tries to come up with innovative ways to deal with these shortcomings.

The UNGC believes that "the Global Compact, unlike other multi-stakeholder schemes aiming at certification (SA 8000) or reporting (GRI), is a principle based initiative asking participants to align their operations and value chain activities with ten universally accepted principles. Commitment to the Global Compact has to be endorsed by the chief executive officer (CEO). This CEO-led character makes the initiative a leadership platform, which is based on a robust policy framework for the development and integration of corporate responsibility practices into a firm's value and supply chain."[32]

[31] Author's interview with a CSR researcher, Beijing, April 2012.
[32] Rasche & Kell 2010, 5.

So, what the UNGC needs to do is insourcing those tasks from its participants. The best choice is the CSOEs. That is the reason why the UNGC always encourages and canvasses the No. 1 enterprise of different industries to sign the Compact into its agenda.

The CSOEs, as the representative of different industries, have three significant attributes to benefit the UNGC. First, as the biggest and monopoly enterprises, the CSOEs have the most advanced technology, plentiful information and knowledge in the field. They are familiar with which occurrences have potential hazards to humans and environment and have enough specialists who could standardize the process of the production. They also have the ability to standardize the CSRs in this field. For example, COSCO have enough information and technology about the safe environmental paints when painting the bottom of the ship to avoid poisoning the creatures in the ocean. Second, only enterprises that are large enough could afford the cost of creating standards and putting them into practice. Normally, SMEs cannot even afford the SA8000 certification fee.[33] Third, because of the CSOEs monopoly of the market and technology, they have the power to choose who qualifies as a supplier to them. This means that only the CSOEs have the power to accept or reject the suppliers.

All in all, the UNGC tries to overcome its shortcomings --- no standards and no teeth --- and tries to achieve the monitoring aim by insourcing the CSOEs --- which are the hegemonic enterprises, could supply the public product for governance. Those enterprises have built a leadership network through the UNGC leadership Conference. Needless to say, it is a totally different way of governance of the business world.

Case Studies of Enterprise Hegemony Governance

The insourcing of regulations will empower the UNGC and make the cost of governance more efficient. However, the power of the hegemony enterprises is not always utilized at the same level. The next step is to examine and evaluate the governance effectiveness of COSCO as a hegemony enterprise that has structural power and Schneider electric as a hegemony enterprise which has relative power.

COSCO: Hegemony Governance Subsidiaries[34]

COSCO is a large global enterprise group focusing on international shipping logistics & ports, and shipbuilding and ship-repairing businesses. It is also a Fortune 500 enterprise of the world. COSCO owns and controls over 800 modern merchant vessels with a total tonnage of 51 million DWTs and, by the end of 400 million tons. COSCO Group's shipping lines cover over 1,500 ports in more than 160 countries and regions worldwide, and its fleet size ranks the first in China and the second in the world. COSCO Group owns world's most advanced container ships with tonnage of more than 1000 TEU, Asia's No. 1 "semi-submersible ships", heavy lift ships for loading of super large and heavy cargos, 300,000-ton VLCC (Very Large Crude Carrier), and professional automobile ships.

[33] Author's interview with Wang Xiaoguang, a CSR researcher, Beijing, April 2012.
[34] The case of COSCO based on the Global Compact: Implementing the United Nations Global Compact in china: Inspirational Case Examples; COSCO: COSCO Sustainable Development Report (2005-2010). Available from: <http://www.cosco.com/en/index.jsp>.

COSCO Group developed its own sustainable development indicator system, there are more than 670 indicators which were developed under the complex of the GRI, ISO 26000, SA 8000 and COP, reflect the key interests of stakeholders. Based on those indicators it is easy to write the CSR report of the enterprise and as a guideline to others in the industry. There are more than 320 specialists of the CSR in shipping industry consist of the promotion team of COSCO.

COSCO Group made a five-year overall arrangement to fully implement the Global Compact and fulfill its social responsibility:

Table-2 COSCO Group five-year plan for implement the UNGC

2005	Pilot projects at COSCO Group headquarters and COSCO Container Lines
2006	Expand the scope for implementation of the Global Compact to 15 companies, including logistics, shipping and ship-repairing. COSCO UK as a pilot oversea.
2007	Expand to 20 second-tier, shipping, logistics and ship-repairing companies.
2008	Expand to third-tier companies.
2009	Expand to overseas companies.
2010	All second-tier, shipping, logistics, port and shipbuilding and repairing companies.

Actually, COSCO is the most successful company to implement the Global Compact in China.[35] Just like Wei Jiafu, the CEO of COSCO, said COSCO Group has endeavored to fulfill its corporate social responsibilities and to build a resource-conservation and environment-friendly enterprise. COSCO Group's Sustainability Report was chosen as a notable COP by the UN Global Compact for the fourth consecutive year in 2010.

Schneider Electric: Hegemony Governance Suppliers[36]

[35] Author's interview with Meng Liu, China representative of UNGC, New York, Feburary 2012. Author's interview with a CSR researcher of COSCO and the vice director of GC office of CEC, Beijing March 2012.
[36] Schneider Electric: Schneider Electric Annual Report 2010. Available from <http://wenku.baidu.com/view/623f475d3b3567ec102d8a72.html>.

In spite of the fact that it was considered as a new effort to make transnational corporations better corporate citizens at the local, national and international level, the UNGC actually have very little impact on the MNCs and its suppliers whether at the local or international level.

As the global specialist in energy management TM with operations in more than 100 countries, Schneider Group has 110'000 employees and sales of more than 19.6 billion Euros in 2010 on the world market. Schneider Electric joined the Global Compact in December 2002 and has primarily worked to share this commitment with its partners since 2003.The Global Compact brings companies and non-governmental organizations together under the aegis of the United Nations to 'unite the power of market with the authority of universal ideals'. It has been recognized for almost 10 years by the main Socially Responsible Investment ratings.

Schneider Electric announced that as a member of the UN Global Compact, it aligns its operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption. However, without any standard indicator to describe the change or achievement in CSR, it is so difficult to provide useful information to the society.

There are more than 70 Schneider suppliers which have signed the GC since 2008. However supplier behavior has hardly changed at all.[37] China Network of the UNGC has contacted Beijing Schneider and tried to discuss the issues of UNGC. However, Schneider Beijing said that they knew nothing about the UNGC and that they encouraged its suppliers to sign the GC because of the command from Shanghai (a regional headquarter of Eastern China). Actually, Schneider Shanghai has no right to command Schneider Beijing because the latter is the Schneider headquarters in China. It seems that Schneider China did nothing about the UNGC except forcing its suppliers to sign the UNGC.

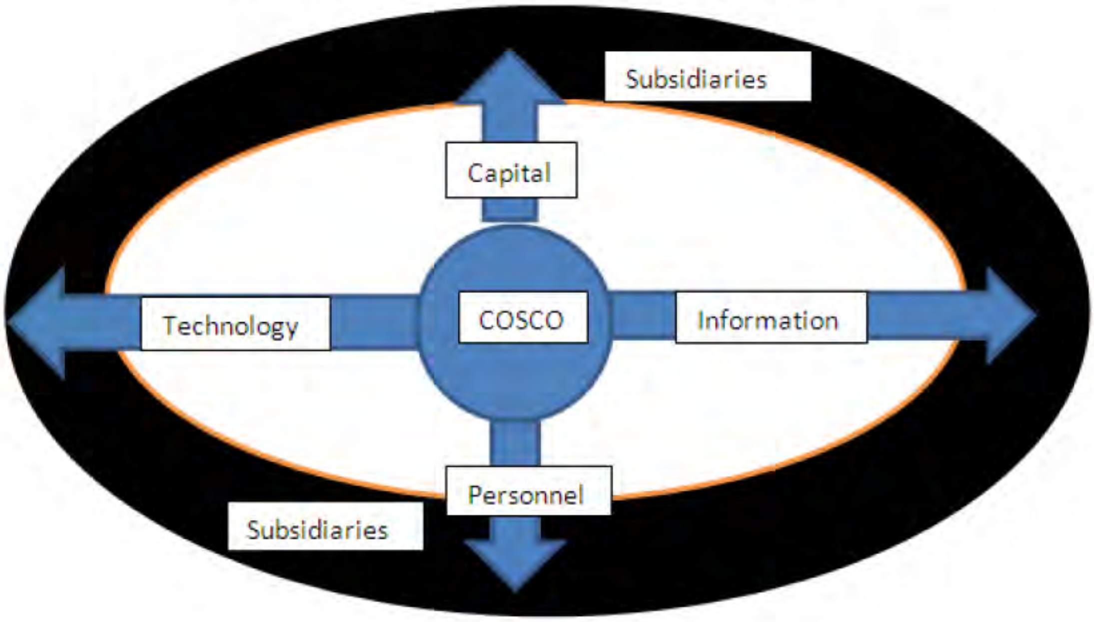
Discussion

Based on the above two case studies, we conclude that there are two reasons which could explain the success or the failure of the implementation of the UNGC.

First, structural power and relative power have totally different influences in hegemonic governance. Though COSCO and Schneider are both hegemonies in their field, the situations that they face are different. COSCO used its power to govern its subsidiaries and it controlled their personnel, capital, technology and information, etc. This kind of power normally belongs to the structural power.

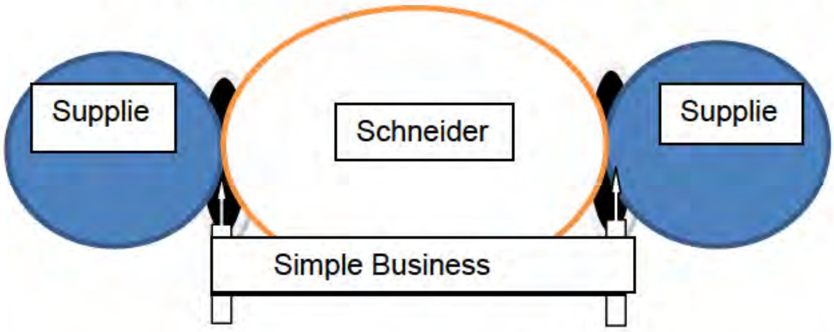
[37] Author's interview with Shunqi Ge and other researchers, Beijing & Tianjin, December, 2011 & March, 2012.

Figure-3: the structural Power of Hegemony Enterprise



Schneider uses its trade power in the governance of its suppliers. What it can control remains marginal. Thus, Schneider has limited influence with its relative power.

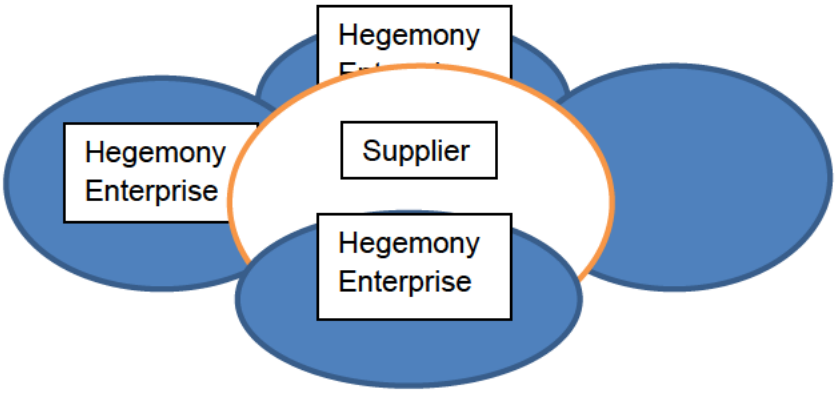
Figure-4: The Relative Power of Hegemony Enterprise



Second, COSCO developed a series of industrial CSR standards based on the GRI, SA 8000, ISO 9001, ISO 26000 and COP etc. It holds the power of discourse by using the network power of RSS institutes, and can also supply the public goods to its cooperators. However, Schneider only uses the limited knowledge from the COP and ISO 14001, and has lost the moral standpoint.

In short, based on these case studies, it could be inferred that the COSCO governance mode regulate its' suppliers under hierarchical structure, and the governance achieved its aim. It means that structure power of hegemonic enterprise have positive effectiveness in the governance process. However, Schneider case shows that Schneider have a tiny influence in the process of regulating its suppliers. The relative structure among hegemonic enterprise and its business partners shows that relative power of hegemonic enterprise has limited influence to its suppliers in regulating process. How could transfer the relative power into structure power? Only more and more hegemonic enterprises become the UNGC participants and they could fulfill the gap which the others did not exist, then using the network of hegemonic enterprise and transferring the relative power governance to the structural power governance will improve the efficiency of the UNGC governance.

Figure-5: The Shift of Power from Relative to Structural



This is why the UNGC attempts to encourage the larger companies to sign the UNGC.

Embedded Hierarchical Network

In this section, the paper will focus on the UNGC governance by outsourcing of the RSS institutes and the political and economic system of enterprise in China. It also explains how external elements shape the process of the UNGC governance in China.

Creating the Local Network of the UNGC in China (2000-2012)

Since the launching of the UNGC, many Chinese enterprises have signed on. There were more than 270 participants as of March, 2012. China Network did a lot of hard work during this period. These efforts can be divided into three stages.

First Stage (2001-2008)

The Global Compact was formally introduced to China through a high level meeting in Beijing held in December 2001, hosted by the China Enterprise Confederation in cooperation with the United Nations system in China, the UNDP and the Global Compact Office. This historic meeting was chaired by Mr. Chen Jinhua, former President of China Enterprise Confederation/China Enterprise Director Association (CEC/CEDA), and Mr. Deng Pufang,[38] President of the China Disabled Persons Federation.[39]

[38] Mr. Deng Pufang is one of sons of then China leader-Deng Xiaoping.
[39] United Nations, Global Compact. Available from <http://www.unglobalcompact.org/NetworksAroundTheWorld/local_network_sheet/CN.html>.

As the employer organization of China and the most important official business association, the CEC is devoted to promoting CSR among Chinese enterprises since 2001. China Foreign Affairs Ministry appointed CEC to implement the UNGC in China. CEC became the first national employer organization in the world to support the "Global Compact" and plays a key role in promoting the "Global Compact" through its multiple campaigns.[40] In January of 2005, Global Compact Promotion Office was established as a subordinate agency to CEC.[41] CEC also became the first national level enterprise organization to sign the UNGC. This organization whose chairman is a minister-level officer is actively pushing forward the development of UNGC in China by helping UNGC establish China network.

Second Stage (2009-2011)

In February 2009, the UN Global Compact Office Executive Director Georg Kell Signed an agreement with Beijing Rongzhi CSR Institute, a private institute, to authorize Global Compact Network China under Bejing Rongzhi CSR Institute as the only institute that is responsible for coordinating the UN Global Compact activities in China, hence promoting the development of UN Global Compact in China.

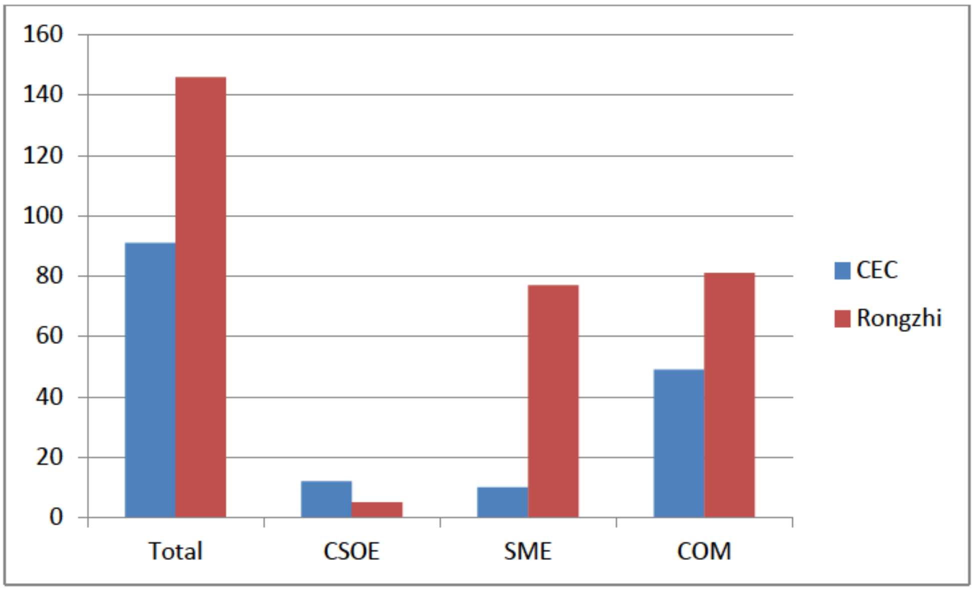
Third Stage (2012-)

From the end of 2011, the UNGC reappointed the CEC not Beijing Rongzhi as China network. On 28 November 2011, Global Compact Network of China was re-constituted to establish a governing board to serve the participants in China with a more structured management system. Mr. Fu Chengyu, Chairman of Sinopec Group and board member of the Global Compact was elected as the first chairman of the Global Compact Network China board. The secretariat of the China network is located at China Enterprise Confederation.[42]

During stage one and two, the private institute and official organization attained different achievements. Rongzhi have encouraged more than 60% participants to sign the UNGC as shown in the figure below.

[40] Author's interview with an officer of UNGC China Network, Beijing, March, 2012.
[41] CEC, Global Compact Promotion Office of China Enterprise Confederation. Available from <http://gcp.cec-ceda.org.cn/aboutus.html>.
[42] UN, Global Compact. 2012. Available from <http://www.unglobalcompact.org/NetworksAroundTheWorld/local_network_sheet/CN.html>.

Figure-6 the number of Chinese business participants of UNGC encouraged by CEC and Rongzhi separately



As a professional institute, Ronzhi have more specialists of CSR than CEC (actually there is only one person in charge for the China Network of the UNGC). Why did the UNGC prefer the CEC? There are two explanations for this. Mrs. Sun, the former China network representative, believed that the government just wanted to get its power back; Mr. Han, the director of the China network, insisted that the UNGC would like to develop a strong relationship with the Chinese government as well as doubting that the private institute had its own interest and was not up to the task. Actually, based on the figures above, most of the participants which Rongzhi encouraged were SMEs and companies, few of them are CSEOs. Most of CSEO participants were persuaded to sign the UNGC by the CEC. To promote the most important and very larger enterprise is the core target of the UNGC. Obviously, the private institutes cannot compete with the requirements of the UNGC. That is the reason why the UNGC retracted to the CEC.

Creating the Network of the RSS institute in Chinese Enterprises

From the COP of the UNGC standpoint, it could find that the COP is only accepted by the SMEs. There are no CSOEs or larger companies using the COP as a CSR report guidelines because of their over-simplicity. However, the UNGC always tries to build close relationships with the very large companies and would like to hold conference inviting main CEOS of the leading enterprise. The UNGC overcame this shortcoming by outsourcing the discourse hegemony of the CSOEs and the hierarchical structure of Chinese enterprises.

Acknowledging that the COP of UNGC cannot help the participants implement the CSR, the UNGC made a connection between the GRI Guidelines and the UNGC COP in 2007. It is hoped that "the UNGC can succeed by catalyzed leadership and innovation in translating key corporate responsibility commitments into organizational vision and action through its ten principles. The GRI's Sustainability Reporting Guidelines provides a means for measuring progress and communicating performance against the GC principles."[43] And the same thing happened between the UNGC and the PRI (the Principles for Responsible Investment). [44] Based on the background of the UN, the UNGC builds up a network of the RSS institutes. What needs to be pointed out is that the UNGC follows a top-down governance structure based on the hierarchical nature of the UN. It is therefore not difficult to shape the process of creating the network of the RSS institute. See the figure below:

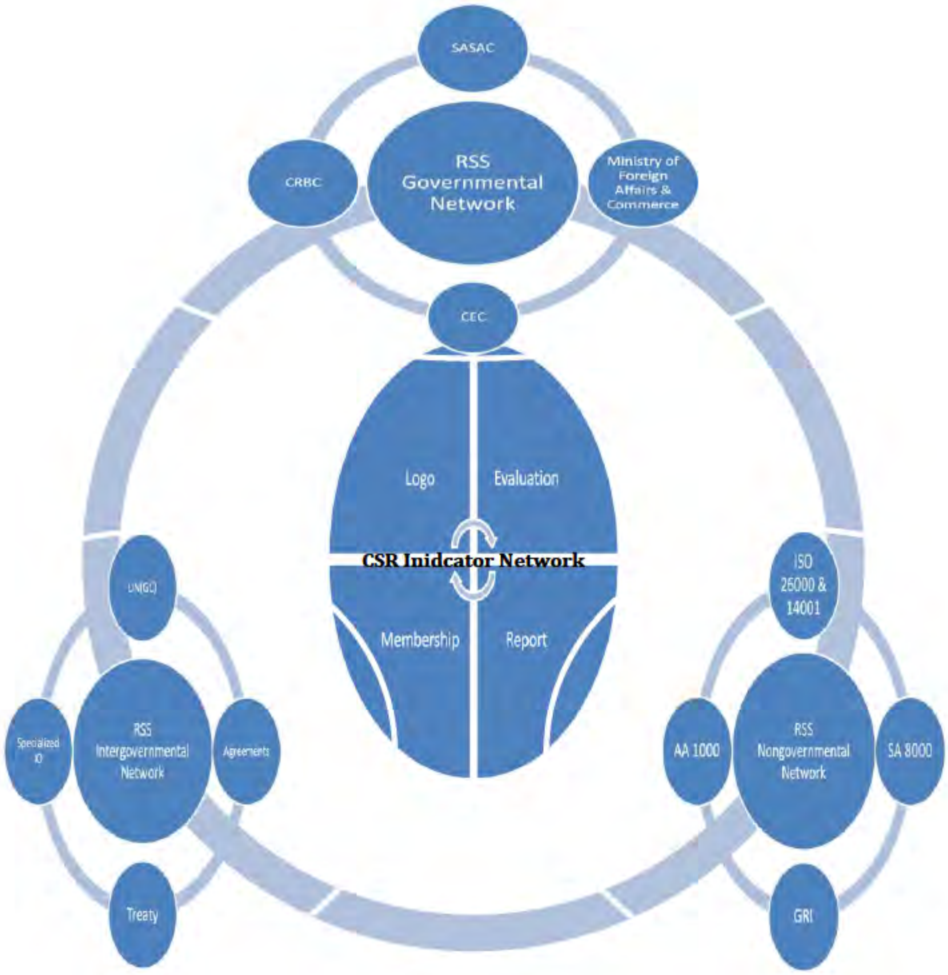
Figure-7 the Global Compact Network

Data source: Georg Kell & David Levin, the Global Compact Network: A Historic Experiment in Learning and Action, *business and society Review*, 2008 (108:2), pp. 151-181.

Only several RSS institutes (including intergovernmental and nongovernmental) have already taken action in China. However, the network was built among them; they share standard indicators and complement each other well. As far as the government is concerned, different ministries would like to work together on enforcement and supervision of the enterprises to fulfill their CSR even in spite of different segments of government supervising different type of enterprises. So, there is an RSS institute network emerging in China as shown in the figure below.

[43] United Nations, Global Compact office 2007.
[44] UNEP Finance Initiative & United Nations Global Compact 2011.

Figure-8 the RSS governance network in China[45]



The Hegemonic Discourse of CSOEs

The indicators of the standards of RSS institutes are the source of the power for governance. The CSOEs of China have developed many indicators of CSR standards in different industries and built up their hegemonic discourse in their own industry. See the table below:

[45] CBRC (China Banking Regulatory Commission, 中国银监会) is the agency of the People's Republic of China (PRC) authorized by the State Council to regulate the banking sector of the PRC except the territories of Hong Kong and Macau.

Table-3 the Hegemonic Discourse of CSOEs

	Third-party Evaluation	GRI	SA 8000	ISO 26000	ISO 14001	AA1000	CASS-CSR	Industry	Indicator[46]
Sinopec 中国石化	CASS-CSR	54	-	-	-	-	148	42	-
CNOOC 中国海油	-	132	-	-	-	-	-	-	-
SGCC 国家电网	AA1000	121	-	+	-	+	+	29	150
CSG 南方电网	_	+	-	+	-	-	+	-	146
CHNG 华能集团	CASS-CSR	126	-	+	-	-	+	176	290
CDT 中国大唐	CASS-CSR DNV	121	-	-	-	-	+	141	295
CHD 中国华电									
CPI 中电投集团	Rongzhi	121	-	-	-	-	-	-	-
China Unicom 中国联通	-	+	-	-	-	-	-	-	-
China Mobile 中国移动	-	121	-	-	-	-	+	24	-
Bao Steel 宝钢集团	-	122	-	-	-	-	+	-	-
Shougan Steel 首钢集团	-	-	-	-	-	-	-	-	-
China Alco 中国铝业	-	96	-	36	-	-	+	-	-
COSCO 中国远洋	DNV	136	-	193	-	+	-	+	793
China Mimetals 中国五矿	DNV	121	-	+	-	+	-	-	-
CTS 香港中旅	-	136	-	+	-	-	-	-	-
Sinosteel 中国中钢	CASS-CSR	+	-	-	-	-	+	-	-
CRCC 中国铁建	-	+	-	-	-	-	+	-	-
CDB 国发行	Ernst & Young	89	-	-	-	+	-	+	-
ZTC 中兴通讯	-		+	-	+	-	-	-	-

Data source: CSR or Sustainability Report of these Enterprises, 2009-2011.

China's CSOEs and the leading enterprises of the industry have developed a series of indicators of the CSR and industry indicators depending on the enterprise and the industry's special situation. For example, COSCO has developed more than 730 indicators not only in the general CSR but also in the shipping industry. ZTC, as the leading global provider of both telecommunications equipment and handset devices, assessed 406 of 638 new suppliers in 2009 and 175 of 289 new suppliers in 2010. However, most of the larger companies and all of the SMEs explored few indicators and wrote the CSR report in just two pages. In spite of publishing the CSR report or the COP, the larger companies and SMEs admitted frankly that they did not change their behavior.[47] This means the UNGC has a weak impact on these kinds of participants in China.

In November, 2011, the UNGC launched a new China Network based on ten CSOE member boards hoping those hegemonic enterprises could provide governance to the UNGC events. The

[46] The indicator of this row are created by CSOEs, not from the RSS institutes. It could tell that CSOEs indeed have more discourse power than RSS institute in some degree.
[47] Author's interview with Lijun Wang and some managers of firms, Beijing, December, 2011. Author's interview with a director of CSR office of a firm, Changsha, China, January, 2012.

China Network had an ambitious target to expand 20,000 participants by utilizing the supplier chains in China before 2020. Is this a realistic way to inspect China's enterprise structure?

The Political and Economic Structure of China Enterprises

Depending on network theory, "civil regulations employ private, non-state, or market-based regulatory frameworks to govern multinational firms and global supply networks,"[48] and of the alternatives, "non-state market driven governance systems deserve greater attention because they offer the strongest regulation and potential to socially embedded global markets."[49] However, based on above discussion, the special character of the CSOEs---a semi-state and semi-market actor----- has a very important role in the process of self-regulation in China.

In China, just like her political system, Chinese enterprises also have the character of hierarchy. On the top of the pyramid it is the CSOEs with monopoly in the market in their field and control of loans and debt by the SOE banks. SOEs and entities directly controlled by SOES account for more than 40 percent of China's non-agricultural GDP.[50] Compared with the influence of thousands of millions SMEs in China, 122 CSOEs (China's strategic and pillar SOEs) have super monopoly in each industry as shown in the table below.

Table-4 the Share of Revenue of CSOEs in China Market

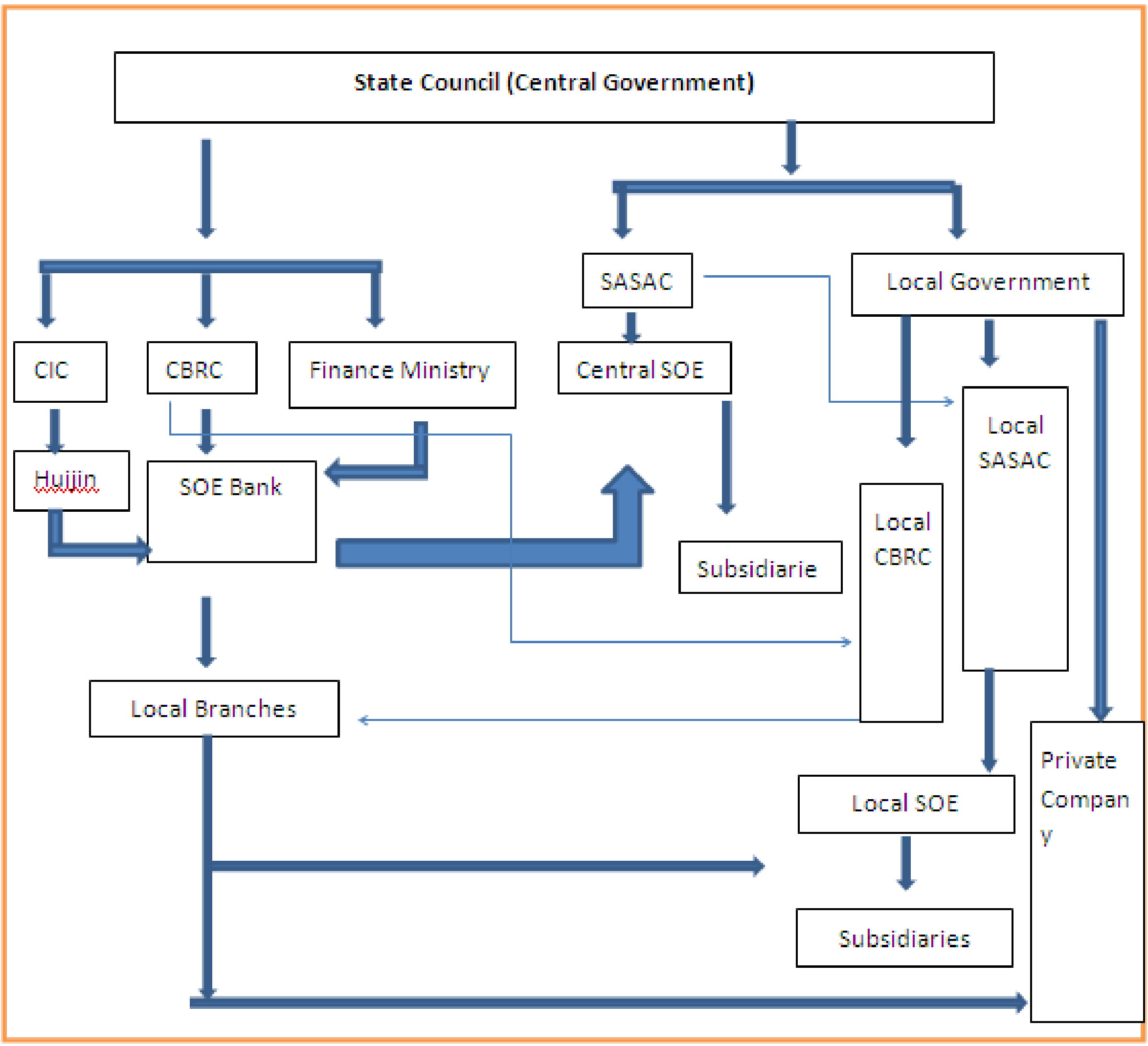
	Industry	Share of Revenue
SGCC, CSG, Huanneng, Datang, Guodian, Huadian, CPIC and Sinohydro	Power	70.6%
SINOPEC, CNPC, CNOOC &Zhen Rong	Petroleum & petrochemical	45.3%
COSCO, Sinotrans & CSC, China shipping Company	shipping	60.7%
China Mobile, China Telecom & China Network	Telecom services	96.2%
Shenhua, CNCG, CCTEG	Coal	12.9%
CSAHC, CNAHC, CEAHC, CTHC,CASHC	Air transportation	76.2%
Shanghai Auto, Dongfeng, FAW, Changan, Beijing Auto, Guangzhou Autou	Automobile	74.0%
Baosteel, Anshan Steel, Wuhan Steel, Hebei Iron, Shougang	Crude steel production	17.6%
Policy Bank, State-owned or controlled banks	Banking	72.7%

Data Source: Andrew Szamosszegi & Cole Kyle, *An Analysis of State-Owned Enterprises and State Capitalism in China*, U.S-China Economic and Security Review Commission, Washington, DC, October 26,2011.

[48] Mattli and Woods 2009, 153.
[49] Bernstein & Cashore 2007, 347-371.
[50] U.S. Congress. 2011.

The CSOEs obviously have special economic status. At the same time, they also have special political status in China.

Figure-8 the Political Structure of CSOEs of China[51]



From the figure above, we can see that the SOE banks and CSOEs are at the core of the whole economic system. At the same time, different Chinese SOEs have different political status from ministerial level to departmental level and lower.

Ministerial level: CSOEs (122); Policy bank (3); State Commercial bank (5) and some Joint stock commercial bank (7).

Departmental level and lower: local SOEs (24, 9600 or so in 2011) and local bank branch.

[51] CIC (China Investment Corporation,中国投资有限责任公司) is a sovereign wealth fund responsible for managing part of the People's Republic of China's foreign exchange reserves. Huijin (Central Huijin Investment Ltd.,中央汇金投资有限责任公司) is a wholly owned subsidiary of China Investment Corporation and owns majority stakes in all of the big four Chinese banks, but does not own shares in the smaller joint-stock commercial banks which are largely owned by local governments.

On the other hand, there are more than 5 million private enterprises without any kind of political status that cannot compete with these monopolies.

There exists a hierarchical system in Chinese enterprises. The UNGC launched a China Network to utilize the CEC which also entails a hierarchical structure from central government to local government to organize the CEO of the CSOEs. This means that the UNGC infuses its idea into this special political and economic structure. With more and more hegemony enterprises signing the UNGC, the gap created by the single hegemony enterprise governance will be filled by the others. Therefore, the relative power of governance will shift to structural power, and an embedded hierarchy network will be created in the future.

Conclusion

When the UNGC was launched, some scholars did not believe that it could have a significant impact on the corporate governance based on the ten principles. Their reasoning was that there were no mechanisms created, such as a new Global Development Commission, a Global Issue Network or an international policing agency.[52] However, the UNGC has found a new way based on Chinese case. These findings suggest revisions to our practical understanding of the UNGC, of the role of high regional officials in local networks and of the influence of hierarchical networks in idea diffusion.

First, the dynamic of Chinese companies signing the UNGC originates from political validity (or political legitimacy), in spite of different companies possessing different aims. Regarding political participation or economic effectiveness, the larger a company is, the more incentive the enterprise has for political participation. The smaller the company is the more the enterprise has incentive for economic effectiveness. What this paper investigated was that the CSOEs have to respect the image of the country and the public expectation to keep its political legitimacy and good reputation. Consequently, the SMEs signing the UNGC are persuaded by their trade partners to do so.

Second, the UNGC tries to change participants' behaviors by outsourcing of RSS institutes and insourcing of hegemony enterprises. However, only the structural power of hegemony enterprises and RSS institutes could change the behaviors of other enterprises in reality and the relative power have been ineffective. How does the relative power also change the participants' behavior of UNGC? Only when a network of enterprises and RSS institutes is created can the outsourcing of RSS institutes and enterprise hegemony work.

Third, the political structure of China's enterprises shapes the form of the China Network of the UNGC. It makes RSS institutes systematically determine the China Network's functionalization.

Today, many RSS institutes go to China and encounter different problems. As profit-RSS institutes, the GRI has not yet established training programs or it did not have this kind of intention to begin with and it is very difficult to find a right way to teach the companies based on the political culture of the region. As a certification institution, the SA 8000 faces very severe problems in China. It

[52] The function of Global Development Commission is coordinating with the Secretary General, the WTO, the IMF, the World Bank, UNCYAD and the UNEP. Global Issue Networks would be a coalition of interested nations, private companies, and NGOs, that set standards and use online polling via the Internet to monitor the participants. The international policing agency is created to use some resources and power (for example, WTO) to enforce global standards. Heyer & Stefanova 2001, 501-521.

creates so much “trouble” for the SMEs. On the one hand, the MNCs bargain with the SMEs to cut costs. On the other hand they send the SA 8000 to audit the suppliers. This is a challenge for China’s SMEs as illustrated by the following interview response.

“The SA 8000 makes the money and the MNCs save the money. There is no profit space left for the SMEs. Because the MNCs just want to buy a ‘responsible’ shirt for 2 dollars, the cost of a ‘responsible’ shirt will increase to 3 dollars by the standards of the SA 8000. For this reason, some SMEs closed in Quanzhou, Fujian Province several years ago. It is very hard to make a choice as to whether unemployment or lower labor standards are more responsible. Why don’t the MNCs pay one more dollar to take more responsibility? The same question can be directed to the people who live in the developed countries.”[53]

ISO 26000 have a similar situation with the UNGC COP. It is charged with translating the principles into standards. The launching of UNGC not only means it provides a more principled and less strict agreement, but that the UNGC builds up a RSS system on the basis of three declarations of the UN. It changes the anarchic regulations to hierarchic regulations (based on the UN structure). It builds up a network for the CSR network. In this regulation network, the actors could find a best way to achieve the aim of self-regulation.

At the same time, the GCLN activates the local political systems and the local political systems inject their ideas into the GCLN. What was the reason the UNGC announced that the GCLN of China is the most successful case? It was because of the “autonomous orbital docking” of the political structure of UNGC and the political structure of China. Prior to the UNGC introduction into China, the UNDP and UNGC met with 8 ministers or semi-minister rank officials and CEOs of the CSOEs. This meeting shaped the nature of the route the UNGC took in establishing itself in China. The political and economic structures of Chinese enterprises entail a kind of hierarchical structure. As a result, the UNGC and Chinese enterprises can easily influence each other. In conclusion, the GCLN performs both the governmental and the international organizational functions.

Last but not least, why has the UNGC been so ineffective in China? One reason is that it has so many competitors (including the GRI, the ISO 26000, the SA 8000, the Equator Rules, etc.); another is that UNGC is becoming bureaucratized in China. However, because of the substitution effect, it is difficult to assess the impact of the UNGC’s accomplishments. There are too many variables influencing the outputs and effects of regulatory demands, and the counterfactuals are too complex.[54] What we do know however, is that because of UNGC’s bureaucratization, some enterprises will probably sign the UNGC but perform little activity in the CSR and many enterprises will drop out from the program. One professional in a competing organization indicated during the interview as to why UNGC has such unrealistic goals. This professional also stated that the UNGC did not produce anything different in its ten principles than what the Declaration of Human Rights in the UN had already done. This professional concluded that it was ridiculous to have a set of programs with nothing new that overlap with existing programme. “Children’s Rights and Business Principles[55] are very similar to the principles of UNGC. Enterprises should not be required to take on political burdens which the government should be responsible for. The UNGC should be involved in areas

[53] Author’s interview with a CSR researcher and several managers, Beijing, March, 2012.
[54] Mattli & Woods 2009, 62.
[55] Developed by UNICEF, the UN Global Compact and Save the Children – the Children’s Rights and Business Principles (the Principles) are the first comprehensive set of principles to guide companies on the full range of actions they can take in the workplace, marketplace and community to respect and support children’s rights. The final Principles were released on 12 March 2012 in London.

where governments are not."[56] What's more, with additional levels being formed in the hierarchy, the cost of operation of the UNGC will skyrocket leading to a serious problem which the UNGC needs to confront. All in all, there are difficulties, many challenges, some successes and unpredictable outcomes facing the operation of the UNGC in China.

[56] Author's interview with a CSR researcher, Beijing, April, 2012.

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