

Role of corporate responsibility: Insights from three forest-industry multinationals investing in China

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Abstract: Recent geographic reallocation of forest industrial production has been associated with the rapid expansion of foreign direct investment to emerging BRIC (Brazil, Russia, India, China) countries, where China has attracted the main interest globally. Simultaneously, expectations regarding corporate governance in the global forest industry have been shifting towards placing more emphasis on environmental and social sustainability of the industry. In this paper, we provide insights into the corporate internationalisation process and implementation of corporate social responsibility by investigating three leading pulp and paper companies International Paper, Asia Pulp and Paper, and UPM-Kymmene Corporation, which have large-scale investments in China. First, we compare investment paths of the three companies and address the impacts of global conventions and policy initiatives on corporate operations. Second, taking a corporate responsibility perspective, we look into processes of local-level corporate responsibility and stakeholder involvement. Finally, we examine the visions of operations and the future of corporate responsibility of the case-study companies in China. The scope of corporate sustainability agendas of three multinational companies in China appears to have followed a standardised fashion. The decision to integrate the plantation-based pulp-industry model in the local context of China seems to be a source of controversy towards corporate legitimacy among the three companies, suggesting establishment of land tenure and enforcement of ownership rights as a key condition in problem solving. In addition, broadening social impact assessments in China might help to prioritise good relationships with government authorities, local communities, and civil society members to ensure sufficiently wide stakeholder support and legitimacy.

Keywords: Foreign direct investment, pulp and paper industry, corporate sustainability, CSR, plantation-based strategy

12.1 Introduction

Recent geographic shifts of forest-industry production capacity have been associated with the rapid expansion of foreign direct investment (FDI) particularly targeting emerging BRIC (Brazil, Russia, India, China) countries. Simultaneously, issues regarding corporate governance in the global forest industry have been shifting to place more emphasis on environmental and social sustainability of the industry. While many proactive forest-industry companies have brought responsible business practices visibly into their corporate strategies and communication

efforts, impacts of such strategic shifts (e.g. corporate contributions to stakeholders) in local operations are not yet well-understood. Thus, better understanding of foreign expansion paths, corporate responsibility development, and responses to growing local and global pressures would become necessary.

China is regarded as one of the most dynamic countries for FDI due to its high pace of development (average GDP growth 9.9% per year since 1995) and large potential market (World Bank 2012). Since implementation of an Open-Door policy in 1978, the Chinese government has actively encouraged foreign trade and investment by establishing special economic zones and giving preferential taxes

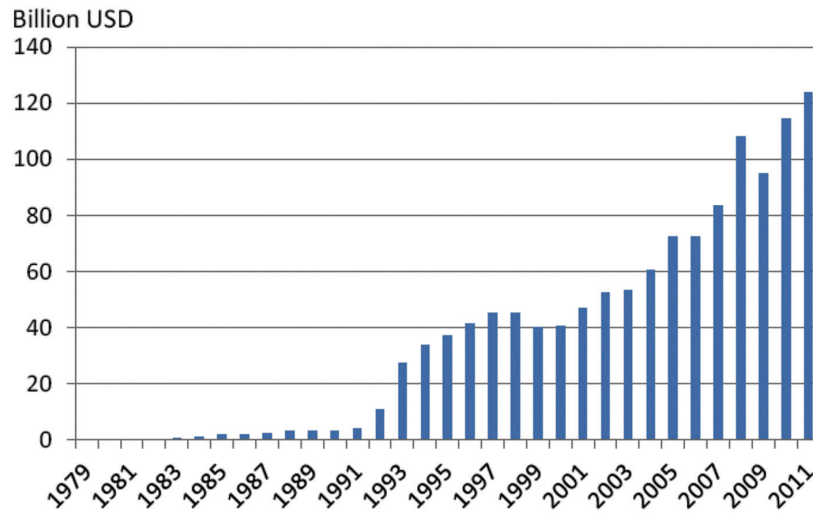


Figure II 12.1 Inward FDI flows in China 1979–2011 (UNCTAD database 2012).

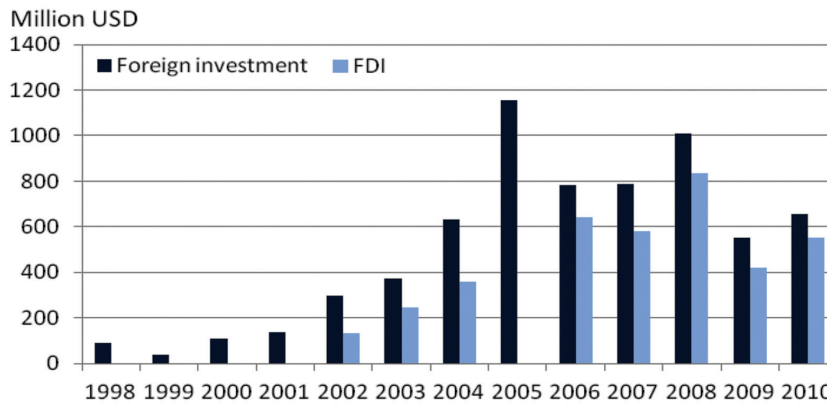


Figure II 12.2 Foreign investment and FDI in the forest industry in China 1998–2010. (China Forestry Development Report 2000–2011).

to foreign investors. Deng Xiaoping's Southern Tour in 1992 accelerated the open-door process and brought the first inward FDI flow period in China from 1992 to 1998. Furthermore, the confirmation of China's membership in the World Trade Organization (WTO) in 2001 initiated a second growth period of FDI inflows in China (see Figure II 12.1). Along with the accumulation of FDI inflows, the Chinese government has significantly improved regional infrastructure in terms of transportation, communication, and supply of water, electricity, and natural gas. In addition, relevant laws, regulations, and policies have been revised according to requirements of a market economy and WTO membership. Overall, the stable investment environment, attractive investment policies, a low-cost labour force, and huge market potential have attracted significant foreign investment to China.

Within the Chinese forest industry, foreign assets had been accumulating since the late 1980s in the backdrop of China's Open Door policy and

the reform process in forestry (Table II 12.1). The WTO membership (2001) also induced an upsurge in inflow of foreign investment in the forest industry (Figure II 12.2), in which FDI has accounted for about 70% of total foreign investment. The cumulative amount of foreign investment during the 2000s reached USD 6.4 billion, which is almost three times the cumulative investment (USD 2.4 billion) in the 1980s and 1990s (China Forestry Development Report 2000–2011, Liu 2002).

The evolution of the forest industry and the growth of foreign investments in China provide a solid national background in terms of exploring foreign operations of multinational enterprises (MNEs). Thus, the objective of this study is to analyse the process of local-level corporate responsibility of MNEs and stakeholder involvement in foreign investments by taking a glance at China as a host country. In the following sections, we first review relevant theoretical background and then compare and analyse investment paths, implementation of corporate

Table II 12.1 Forest-related institutional evolution in China (1970–present).

	Country level	Forestry related
1970s	1978, Open Door policy Start of economic reform: from planned economy to market economy	Collective forest management dominant Forest sector as a supplier of cheap raw materials Forest resource devastated: extensive timber cutting and inefficient afforestation (successful rate of plantation: 20%)
1980s	Establishment of special economic zones on the east coast	1984, launch of the first Forest Law Start of forest-tenure reform from collective to individual household management (household production responsibility system)
1990s	1992, Deng Xiaoping's Southern Tour: acceleration of the open-door process 1995, the launch of the Provisional Regulations upon Guidance for Foreign Investment Orientation and the Guiding Directory on Industries Open to Foreign Investment 1992–1998, first progressive period in FDI	1992, launch of Barren Land Auction policy 1998, Forest Law revised 1998, launch of Six Key Forest Programs Reorientation of forest policy from a strategy of timber production to resource and ecosystem conservation
2000–present	2001, membership in WTO, start of second progressive period of FDI 2008, new Corporate Income Tax Law 2011, latest version of Catalog of Industries for Guiding Foreign Investment	Significant increase in forest coverage Largest plantation estate in the world Forestry foreign investment in 2000–2010 tripling that of the 1980s and 1990s

responsibility and stakeholder involvement, and finally explore the future business orientations of the three MNE cases in China. Finally, some common contextual circumstances faced by these three MNEs in China are discussed to point out ways to improve responsible business operations.

12.2 Background

Calof and Beamish (1995, p. 116) describe internationalisation as “the process of adapting firms’ operations (strategy, structure, resources) to international environments.” Corporate motivation to internationalise operations has been defined either as a resource-seeking, market-seeking, or efficiency-seeking mode using variable expansion mechanisms of FDI, joint ventures (JV), licensing, or exporting (Mudambi and Mudambi 2002). China, as an investment destination, has evoked research concerning perspectives of investment policy, governance, economic and social impact, and technology spillover (e.g. Han et al. 2004, Wang 2007, Cole et al. 2009, Huang and Tang 2012). However, in the forest sector, research on MNEs’ foreign investment in China is limited (Zhang et al. 2013).

Along with economic globalisation and increasing environmental concerns, national-level management standards can no longer efficiently regulate MNE operations, putting more weight on corporate self-governance and orientation towards sustainable development. Emerging in the 1970s, the concept of corporate social performance (CSP) has become an attempt to offer a managerial framework to deal with and to measure corporate responsibility (CSR or CR) (e.g. Wood 1991). Van Beurden and Gössling (2008) have conceptually divided CSP into three categories: the extent of social disclosure about matters of social concern; corporate actions (e.g. philanthropy, social programs, pollution control); and corporate reputation rating agencies (e.g. in KLD, Fortune). In addition, widely accepted international conventions, policy initiatives, and unified standards based on voluntary participation have been carried out. The Global Reporting Initiative (GRI) and the UN Global Compact are designed to standardise corporate sustainability. MNEs could meet local stakeholders’ expectations and gain competitive advantage by subscribing to internationally recognised standards (Angel et al. 2007, Perkins and Neumayer 2010). MNEs could also positively stimulate local companies through mimetic effects to help in development of the host country’s economy (Perkins and Neu-

mayer 2010). From the industry perspective, voluntary implementation of sustainable management standards may also bring benefits to operational efficiency. Released by the International Organization for Standardization (ISO), ISO14001 environmental management system and ISO 9000 quality management system have become the most successful and widely adopted sets of standards in assessing corporate environmental management and firm quality management (Clougherty and Grajek 2008, Perkins and Neumayer 2010). Specifically in the forest industry, the concept of forest certification was created as a market-based instrument to promote sustainable forest management. After 20 years of development, the Forest Stewardship Council (FSC), Pan European Forest Council (PEFC), and other national-level forest certifications have been gradually implemented all over the world.

Managing social and environmental legitimacy with a wide set of stakeholders at local, national, and international levels is of increasing importance in the global forest industry (see e.g. Mikkilä 2006). Local communities affected by the business activities of MNEs are a considerable stakeholder group, particularly when the cultural and political environment differs from that in home (headquarter) countries. Also, the context of operation influences consideration of various stakeholders (e.g. Kourula and Halme 2008). Schepers (2006) has proposed that when MNEs operating both in developed and less-developed countries gain international exposure through consumer or investor pressure, their CSR practices tend to be skewed towards developed-country stakeholders. Therefore, the impact of the home country may differentiate corporate conduct at various locations. Muller and Kolk (2010) argue that pressures by home-country stakeholders to exhibit high levels of CSP motivate MNEs to embed higher CSP both within their own subsidiaries through FDI and in their trade with arm's length partners in lower CSP contexts as a way to solidify a good corporate reputation and manage risk. However, according to Misani (2010), social practices of firms can very often be driven by pressures to conform to prevailing industry practices without a strategic intention to excel and differentiate themselves from competitors. In any case, empowerment of local stakeholders and increasing attention to issues such as equity in stakeholder involvement represent hot-spot areas for forest-industry multinationals.

The gap in environmental and social standards between industrialised and developing countries is evident in the controversy about large-scale North-South shifts in pulp and paper production. In recent years, a number of FDIs in the forest-based industry (e.g. Veracel Celulose S.A. eucalyptus pulp mill in Brazil, Botnia cellulose pulp mill in Uruguay, Asia Pulp and Paper and Stora Enso plantations in

China) have received intense criticism in terms of unsustainable wood supply, negative environmental impacts, controversial social benefits, insufficient scientific evidence on the large-scale effects of the plantations, and greenwashing accusations (e.g. Lang 2007, Varmola et al. 2010, Laasonen 2012), placing increasing pressure on FDIs to be more environmentally and socially responsible by balancing the diverse demands and claims of the different stakeholders. Having realised that challenges and risks in FDI are socially, politically, and culturally derived from objectives and strategies of different stakeholders, Aaltonen and Kujala (2010) have proposed a project life-cycle perspective to understand secondary stakeholders' influence on behaviour in the forest industry through investment preparation and operational project execution, enabling the use of more effective stakeholder-management approaches in a project.

As described in the background information, the internationalisation process in the forest industry is associated with multiple themes, from international-level policies and a range of environmental and social issues to market and policy uncertainties in the emerging countries. Thus, in this case study, by controlling the context of analysis to a single country, China, we aim to capture the interplay between corporate investment paths (expansion process), impacts from international conventions and policies, and local-level corporate contribution and stakeholder involvement to analyse the potential future of MNEs in China.

12.3 Data and methods

Qualitative analysis on activities of three multinational companies was selected as the research methodology. Case studies are "the preferred strategy when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real life context" (Yin 2003, p. 1). In this study, UPM-Kymmene Corporation (referred to as UPM), Asia Pulp and Paper (APP), and International Paper (IP) have been chosen as focal companies to represent different corporate backgrounds. The comparison of three companies may help to draw stronger and more convincing conclusions about implementation of internationalisation strategies and corporate responsibility.

Data consists of both document analysis and interviews. The secondary documents include corporate annual reports, financial filings, sustainability reports, corporate websites, and brochures, as well as information from all relevant digital channels of newspapers, journals, magazines, and NGO publications. The effective time period for documentary

information was from 2002 to 2012, i.e. the second growth period of FDI inflows to China. A semi-structured interview protocol was designed based on the research questions about corporate responsibility, stakeholder interactions, and the operational situation and prospects in China. Eventually, one senior manager from each focal company, two representatives from NGOs, and one industry expert of Finnish origin were interviewed via video or telephone. The thematic interviews were conducted in the second half of 2012, each of them lasting from half an hour to two hours. The interview language was either Chinese or English, and all of the interviews were recorded for the purpose of information accuracy. The data was analysed using thematisation.

The integrity of case study research in terms of validity and reliability ensured methodological rigor and decreased the possibility of bias (Yin 1989, Patton 1990). In this study, we use triangulation of data (both secondary documents and interviews) to improve the reliability of the study and the use of quotes from interviews illustrates interviewees' authentic responses. The pre-designed protocol is followed during the interviews to ensure data consistency. In addition, top-level managers and experts with rich professional experiences are targeted in the interviews to guarantee validity of the information obtained. However, our interview data is still quite limited, especially from the viewpoint of external stakeholders, providing areas for future research.

12.4 Results

12.4.1 Company investment paths in China

Before China joined the WTO in 2001, joint ventures were a key priority for MNEs in their entry strategy to set up contract manufacturing structures in China, with a view to targeting overseas customers. Today, foreign MNEs in China are facing increased challenges, including issues of increasing complexity that touch on risk management and frequent regulatory change, rising economy of inland provinces, strengthening of local competition, rising labour and production costs, the war for talent, and an economy that is not immune to the current global economic malaise. All of these require foreign MNEs to adapt their strategies in China according to the scale of their operations and ambitions regarding corporate sustainability.

Key features of company operations in China are shown in Table II 12.2. The Finnish company UPM expanded its business into China in 1998 by taking a 49% minority interest in the APRIL Fine Paper mill and set up its first paper machine in Changshu,

Jiangsu Province. In 2000, UPM obtained 100% ownership of the Changshu mill and established its wholly owned subsidiary. After 14 years of development, UPM has gradually gained ownership of a paper mill, a label-stock factory, and an Asia research-and-development Centre in Changshu, and expanded its sales offices over the southern and eastern parts of China. UPM's main business areas in China and Asian Pacific areas include paper, label materials, plywood, sawn wood, and radio-frequency identification (RFID) tag products. By 2010, UPM had cumulatively invested USD 1.2 billion and had a total of 1367 employees in China. In August 2012, UPM announced a new USD 500 million paper-machine investment to increase production of fine and label paper at Changshu mill, to begin operation in 2014. Shortly afterwards, a new strategic partnership with the giant Hengan Group, which produces household paper products, was announced to bolster UPM's direct sales operation in China.

Indonesian Asia Pulp and Paper (APP) entered China in 1992, which is the earliest of the three case companies. APP set up joint ventures with Chinese paper and pulp companies at the initial stage of expansion. In 1994, APP set up its first plantation base in Guangdong Province, which established APP's development strategy of plantation-pulp-paper integration in China. Since 1996, APP has successively invested in wholly owned subsidiaries in eastern and southern parts of China and set up its headquarters in Shanghai. After two decades of operations, APP's asset base in China has reached USD 13 billion through ownership of 18 pulp and paper enterprises and more than 20 plantations (more than 300 000 ha) in the Yangtze River and Pearl River Deltas. APP's main business categories in China include copperplate paper, pulp, industrial paper, packaging paper, household paper, and carbonless copy paper. By 2010 (latest available figure), APP had 38 900 employees in China, many more than the other two companies.

International Paper (IP) from the United States started its Chinese business in 1994 by establishing an office in Hong Kong focusing on business development. IP has gradually established its industrial packaging production and sales plants in China and moved its Asia headquarters to Shanghai in 2004 to expand its Chinese operations. In 2006, IP invested USD 140 million into a joint-venture business with Shandong Sun Paper Ltd. to produce premium coated paperboard. In 2010, IP purchased SCA's packaging business in Asia (primarily in China), consisting of 13 corrugated box plants and two specialty packaging facilities. To date, IP has cumulatively invested about USD 2 billion in China and currently owns 19 production and sales plants operating both consumer and industrial packaging businesses in 17 cities.

Based on the information about the three com-

Table II 12.2 Operational information of case-study companies in China.

	UPM	APP	IP
Business areas	Energy and pulp Paper Engineered materials	Paper Pulp Packaging	Printing papers Industrial packaging Consumer packaging
Forms of investment in China	FDI	FDI and joint venture	FDI and joint venture
Assets in China	USD 1.2 billion (2010)	USD 13 billion (2010)	About USD 2 billion
Sales in China (% of total sales)	USD 592 million (5.37%) (2010)	USD 5.9 billion (% N.A.) (2010)	USD 706 million (2.8%) (2010)
No. of employees in China (% of company total)	1367 (6.25%) (2010)	38 900 (% N.A.) (2010)	3500 (5.9%) (2010)
Headquarters in China	Changshu	Shanghai	Shanghai
No. of facilities in China	3 paper and label plants 1 R&D centre 6 sales offices	18 pulp and paper enterprises More than 20 plantation farms	19 container plants 1 Asia Customer Solution Centre 1 IP-Sun joint venture

panies' activities in China, some differences in their expansion paths can be observed. All three entered China during the 1990s, which makes them among the very early MNEs to invest in China. Concerning investment type, UPM established a wholly owned production unit almost from the initial stage; however, APP and IP chose the incremental strategy through establishing a JV or a sales office, respectively. As stated by a manager of APP, "JV acts as learning tool during the early stage of corporate expansion; however, wholly owned subsidiaries are preferred since ways of communication have been established."

The sales value among the three companies in China differs as well. For UPM and IP, sales in China only accounted for 5.3% and 2.8% of its global sales respectively in 2010, indicating that currently China is still a minor market. However, the sales of APP in China reached USD 5.9 billion in 2010, which was about 10 times more than that of UPM and IP. Although the global share of the sales of APP China is not available, representatives from both APP and an NGO said: "China is still the most important market for APP." From the business point of view, APP also

differs from other two companies: UPM and IP have only invested in production plants, while APP has both production and plantation investments. However, all three companies have maintained almost the same organisational structure in China as globally.

The different investment paths of these MNEs indicate different strategies for implementation of corporate responsibility through, for example, local-level contribution and stakeholder involvement and emerging future business trends in China. These are elaborated in more detail in the following four sections.

12.4.2 Impact of global conventions, international policy initiatives, and market-based mechanisms

Based on disclosures of the companies, all show commitment to global sustainable development goals (UPM and IP are members in the World Business Council for Sustainable Development, WBCSD;

UPM in the Dow Jones Sustainability Index, as the only paper company in 2012, and in the UN Global Compact since 2003) to align corporate operations and strategies with human rights, labour, environment, and anti-corruption issues. In their paper and paperboard manufacturing, all companies have adopted systems of quality management (ISO9001) and environmental management (ISO 14001); and acknowledged the importance of health and safety (OHSAS 18001) with their employees. Driven by the Global Reporting Initiative (GRI), each company actively participates in publishing annual corporate sustainability reports. According to the latest reporting profile, the application levels of UPM, APP, and IP are B+, B+ and B, respectively, which indicates comparatively detailed and well-defined reporting under different GRI domains of sustainability. However, in a previous study by Toppinen and Korhonen-Kurki (2013), adoption of standards such as GRI on sustainability reporting was not found to improve the transparency of social practices in forest industry MNEs.

Regarding adopting forest certification, UPM, APP, and IP either have FSC or PEFC Chain of Custody in their Chinese factories. By 2011, 60% of APP plantations have been certified by the China Forest Certification Council (CFCC), which had joined PEFC International in 2011, but the process of endorsement and mutual recognition between the China Forest Certification Scheme and PEFC is still ongoing.

Referring to corporate green image, interviewees from all of the companies consistently indicated its importance for corporate operations, especially when dealing with global customers. However, considering the domestic market in China, all interviewed managers voiced that impacts of green image are still very limited and the product-level sustainability can be considered as an advantage but not a source for price premiums for products. In the future, however, case companies expected that the green image will have more influence on the Chinese market.

12.4.3 Contribution of companies to the local level and linkages to market value chains

Foreign investment contributes, for example, employment opportunity, technology transfer, and market values to the local economy. In case companies, the current number of employees in China varies from 1367 in UPM and 3500 in IP to more than 38 000 persons in APP. Localisation of the management team in China is a common trend in all of the companies. In UPM, the proportion of Chinese employees is on

the rise due to new investment decisions, while there is simultaneous decrease in European facilities. UPM has tried to localise corporate organisational structure by employing local employees up to the management level and currently has only six to seven expatriate managers in Asia. Similarly, IP employs very few expatriates working at the management level in China. In contrast, APP local employees account for about 70% of those employed; at the management level, the ratio is 60%. As explained by an APP manager, “The high ratio of expatriates will decrease when the ongoing projects are completed.”

Businesswise, UPM focuses on printing and writing paper markets and labels in China. UPM has also established a research-and-development centre, illustrating commitment to developing solutions for non-wood-based pulp production (accounting for more than 53% of the paper industry’s raw material in China in 2010, UPM 2012). Customised products offered to meet local needs and the Asian Pacific market represents about 14%–15% of total sales. UPM cooperates with local distributors to support its sales network in China. However, as stated by a UPM manager: “As the distributors in China are small, we have to have deeper involvement in taking care of warehouses, etc. than we did in Europe.” Product quality and reliability in supply are considered as the key competitive strengths of UPM in China.

IP operates as a packaging-and-paperboard-driven company serving markets both in China and Asia. IP uses third-party logistics for products distribution in most cases to keep up operational efficiency. The best manufacturing system in the industry, with a global footprint and vision, is considered as IP’s key strength in China. However, brand recognition is still low for even IP: as stated by one manager, “Brand awareness is very weak in the overall China market, and the price is still the most important issue. It is a long way to go before building a close relationship with the domestic clients.”

APP operates a larger business portfolio in China than UPM and IP. Although APP sets China as the main target market, some of its paper products manufactured in China still serve globally. APP has 17 sales companies (45 sales offices) covering all provinces in mainland China. APP uses third-party logistics for products distribution. In addition, APP has a centre in Shanghai to supervise logistic systems for each of its mills in China. As explained by an APP manager, “Performances and services can be ensured through the connection between sales offices and distributors/end users.” APP considers clean production, efficient management, and solid actions on plantations as key operational strengths in China and points out that “cultural similarity and mutual recognition have helped the operational efficiency in decision-making and communication with local communities.” APP also has undertaken a long-term

brand-building process in China, and it was recognised as “the best brand-image enterprise” by China Finance Summit in 2012.

In sourcing raw materials and pulp, UPM and IP rely strongly on imports of pulp and recycled paper into China, which not only simplify corporate operations but also limit the scope of environmental and ecological impacts on local livelihoods, as no wood raw material is procured locally. Based on our interviews, UPM considered the establishment of plantations in China 10 years ago; however, the plan did not go through. As a reason a UPM manager stated, “The timber [land] is very expensive and the establishment of plantations was not found sufficiently profitable.” In addition, the limited land availability for plantations and the lack of resources for large populations were also mentioned, all of which prevented UPM from achieving its intention towards an integrated plantation-pulp-paper model in China.

APP leased 300 000 ha of plantations in Guangxi, Yunnan, and Hainan Provinces. As stated by an APP manager, “Plantations provide 100% of raw materials for the Guangxi pulp mill but only provide 30% to 40% of raw materials for the Hainan pulp mill. In order to meet the needs of the rest, we have to buy pulp from our overseas plantations or global markets.” The pulp mills have brought benefits for the development of urban economic zones; however, there could be risks of impoverishing and simplifying the local economic system. An NGO interviewee argued that “in APP’s plantation project in Hainan Province, instead of bringing benefits and job opportunities to local communities, APP hired cheap labourers from remote areas of Sichuan and Guangxi Provinces to minimise operational costs.” As underlined by an NGO representative, “MNEs should assure benefits for local peasants” and “the value of the land should be evaluated fairly before signing the lease contract.”

12.4.4 Stakeholder involvement

The representatives of the three MNEs each expressed their company’s aims to maintain good stakeholder relationships in order to effectively implement their operations in China. When viewing implementation of their corporate responsibility strategies, no incidents were found regarding UPM and IP that would have reflected negative public scrutiny in China (comments on APP are below). For example in 2004 and 2005, UPM was recognised by both state and local governments as an environmentally friendly enterprise. From the NGO side, Greenpeace has also stated its support since UPM announced that it has no intention of establishing plantations in China. In addition, UPM was also designated as one

of China’s top employers by the Corporate Research Foundation (CRF) institute in 2012, which affirmed the company’s human resources strategy and competitiveness in Chinese labour markets.

In managing local stakeholder relations, an interviewee from UPM emphasised the importance of multiple-level public stakeholders for its smooth operations. As stated by a UPM manager, “Good relationships with government officials are essential to open communication. Showing respect is very important.” In addition, the company viewed stakeholder management by working through its employees, as “pensions, medical care, learning opportunities, training programs, and promotion opportunities have attracted local young people to work for Western rather than Asian companies.” An UPM representative claims that his company maintains an open attitude, communicating with the general public, and insists “the consistency of oral promises with practical actions”. However, results from carrying out any formal social-impact assessments were not mentioned during the interview.

IP actively participates in philanthropic and environmental projects in terms of scholarships, tree planting, and charity programs in China. As said by a manager, “IP is still learning the best way to work with stakeholders.” However, considering the social impact assessments, the IP manager admits that these have not yet been implemented in China. More specific information concerning IP’s operations in China is lacking from the corporate website and sustainability-related documents.

As for APP, different from UPM or IP, it implements plantation-pulp-paper integration through land leases and plantation activities, which have more substantial local impacts through upstream activities and broader stakeholder involvements beyond mill gates. APP has a corporate CSR report and a Paper Contract with China (PCWC) forum as its key communication channels with stakeholders. APP also actively participates in philanthropic projects in China, having donated nearly USD 100 million. Concerning community relationships, an APP interviewee states that “APP treats local communities as part of its stakeholder group by providing job opportunities, participating in e.g. road construction, and taking care of peasants’ daily needs.” However, APP is not so optimistic about the future prospects for plantations in China, and as stated by an APP interviewee, “Difficulties in verifying owners of forest tenure, problems of forest theft, pressures from rising costs, and lands availability for plantations are main obstacles.”

In the eyes of many NGOs, the plantation behaviours of APP and its relationship with local communities have been controversial issues. As an interviewed representative of an NGO said, “Forestry MNEs with plantations in China have more conflicts and contro-

versial issues with government and NGOs than those that just run production mills.” For example, Greenpeace has made several accusations over the years that APP has participated in illegal logging activities that have led to the deforestation of natural forests in Yunnan and Hainan Provinces. Zhejiang Hotel Association which boycotted APP products based on environmental reasons is considered to be China’s first civil-society boycott of a company’s products. “A more open, reliable, practical, and scheduled plan for the improvement of the operation of APP plantations is expected,” commented an interviewee from a local NGO. In response, an interviewee from APP stated, “There are small problems during operations, but huge progress has been made in environmental protection.” In 2013, APP Indonesia announced a new forest conservation policy, which put a halt to clearing natural forest; however, its impacts have yet to be evaluated.

With respect to the main forms of community and local stakeholder involvement, practices in the case-study companies are fairly similar: they have participated in various philanthropic projects in terms of disaster relief, environmental improvement, community construction, and scholarships. However, as Kourula and Halme (2008) maintain, corporate philanthropy can be seen as separate from strategic company goals, an instrumental way towards achieving business legitimacy. Therefore, corporate views towards implementation of strategic CSR were not yet clearly visible in the context of China. Also, according to interviewed representative of civil society, MNEs’ CSR activities in China and Asia in general are very often driven by company needs, and projects such as attempts to involve local communities are emerging only after conflicts arise. In conclusion, stakeholder management in China is more reactive than proactive, aiming to minimise conflict, rather than to solve the roots of some future conflict.

12.4.5 Corporate insights on future business in China

Finally, we focus on insights available from corporate views concerning future development in China and the surrounding Asian Pacific region (see Table II 12.3). The competitive landscape is set to change with the Chinese government’s plan to shift the economy from manufacturing to consumption (or from manufacturing to services). The Chinese tax authorities have implemented several regimes (i.e. the VAT reforms introduced in 2012 to replace the business tax with a value-added tax for cross-border transactions) to grant favourable tax treatment to inbound FDIs. In the long term, greater opportunities are seen

for foreign MNEs that establish full-fledged manufacturing operations in China and with a primary focus on the Chinese market, seeking organic growth or growth through mergers and acquisitions.

From the viewpoint of market demand, UPM and IP both appear to expect solid demand growth in China in the foreseeable future. In contrast, APP clearly points out the intensified market competition in China and Asian Pacific markets, possibly because of its high market presence and reliance on local and regional markets. Based on corporate website information, APP aims to consolidate corporate internal resources, develop new international markets by increasing exports, and create high-quality value-added products for its customers in the future. Concerning strategic objectives, UPM states that it will continue to invest in its paper and label business in China by building a new wood-free specialty paper machine at Changshu and expand its markets to reach the target of “having more than 50% of sales from well-performing emerging businesses in the latter part of the decade (UPM 2012).” IP will continue to build on the JV cooperation with Sun Paper by investing in a fourth board machine to strengthen its leading position in consumer packaging in China. Meanwhile, IP set the profitable growth strategy by utilising a national network of box plants for its industrial packaging sector and an export strategy for its printing paper sector in China. APP aims to increase investments in environmental protection and clean production to strengthen its competitiveness.

As for perceived challenges, case-study companies concern economic and political risks, overcapacity, and fierce competition in China. For UPM, overcapacity is not perceived as such a threat since increasing exports can provide a solution. For APP, fierce competition for imported raw material and the public’s stereotyped impression about the paper industry challenge its operations in China.

The emerging stakeholder issues are perceived to be quite similar among the three companies, each of them prioritising sustainable operations, improving customer relationships, and environmental performance. UPM aims to have an 80% share of certified fibre by 2020 to maintain sustainable development and, in a recent campaign in 2013 with ELLE China, to reach a target of 100% FSC certified fibre. IP states that it will develop the sustainable product life cycle from product design to end use, while APP expects to focus on innovation and clean production and to building long-term relationships based on customer needs.

Table II 12.3 Corporate insights on future development of the three companies in China.

	UPM	APP	IP
Market expectations	Solid demand growth expected to continue	Intensified market competition	Large market, strong demand growth In short term, excess supply possible
Strategic objectives	Commitment to serve market-growth opportunities Reshaping of the business portfolio and expansion in most profitable growth segments Regional strategy: Asian label-paper customers with multiple end-use areas identified as a further strategic opportunity	Expanding into new markets through market integration Consolidating financial resources to explore alternative financing options Solidifying firm's financial risk management Building diversified product mix to create high value-added products Practicing integrated plantation-pulp-paper model Improving efficient use of resources and promoting a recycled economy (corporate-level goal)	Commitment to serve market-growth opportunities with FDI Industrial packaging strategy: profitable growth utilising national network of box plants Printing paper strategy: export to fast-growing Asian markets Consumer packaging strategy: strengthening of leading position in fast-growing markets and growth with established customer base
Perceived challenges	Political risks, corruption, the unequally distributed wealth	Overcapacity in markets Fierce competition for raw materials Policy changes and stringent environmental regulations	Economic and political instability Being competitive and profitable in over-supplied markets of Asia
Top three prioritized stakeholder interests	Achieving high profitability Improving customer relationships Maintaining superior environmental performance	Controlling waste and emissions Managing natural resources, Maintaining ecosystems	Building a sustainable product life cycle from product design to end use

12.5 Summary of corporate internal and external issues

Currently, China is the most important target market for investment in the global forest industry, and the three case-study companies (together with many others in the forest industry) share an interest in having a strong local presence in its growth markets. Based on comparative analysis of the activities and communications of the companies, common contextual circumstances and identified stakeholder-related issues seem to prevail in China (synthesised in Table II 12.4).

From the corporate internal point of view, market-driven investments, high localised workforces, and use of local logistic suppliers in China appear to be

common for all three companies. In addition, companies have a strong self-perception of their corporate sustainability. However, low brand recognition and weak customer relationship are regarded as challenges in the Chinese market, and local consumers still have very limited awareness of corporate green images. Comparing corporate Chinese operations with their other operations internationally, the three companies appear to maintain consistently global organisational structures and raw material procurements.

From the corporate external point of view, importance of good relationships between companies and government was emphasised. All case-study companies actively participated in philanthropic projects in China; however, the scope of dialogue with local communities appeared quite limited. Plantation busi-

Table II 12.4 Emerging stakeholder-related corporate internal and external issues, both in China and at the international level.

	Corporate internal	Corporate external
China	Market-driven investments with domestic and export-oriented production Heavy dependence on local workforce, also at the management level Reliance on local logistic suppliers Strong self-perception in corporate green image Efforts needed to enhance local brand recognition and customer relationships	Good company-government relationships Active participation in local philanthropic projects but lacking substantial local community dialogue and empowerment Lack of social impact assessment and narrow sense of implementation High environmental and social sensitivity about plantation business Increasing influence of local NGOs in the future
International	Establishment of sustainable raw material procurement Aligning with corporate organisational structure	International sustainability standards and conventions as an influence pathway International NGOs pressure in promoting forest certification, civil and land-use rights Increasing consumer pressures and demand for certified products

ness has high environmental and social sensitivity in China, and criticisms from many NGOs have emerged. In addition, pressure from global market demands for certified forest products has also evidently driven the companies' operations in China.

12.6 Conclusions

The rapidly growing and profitable Chinese market has, and will, offer future lucrative opportunities for forest industry multinationals. Based on the evolution of investment paths and identified stakeholder issues, it appears that when operating in China, the integration to local fibre supply and leasing plantations locally will make a substantial difference in maintaining acceptability of company operations. Among the case companies, APP has the largest presence in China and has also had more critical stakeholder scrutiny. For UPM and IP, focusing on paper or paperboard production in urban or semi-urban areas, the social issues have remained relatively uncomplicated, permitting business as usual. When sourcing wood fibre locally, issues with land ownership, incomplete leasing contracts with communities, and employment-related issues at rural plantations are sure to arise in China.

Estimating the full economic and social impact of MNEs locally is not a simple task, but it is a procedure that ideally evaluates the circumstances for broader sustainable development. In this analysis,

the scope of the corporate-responsibility agenda of MNEs and their approaches to engaging stakeholders in China appears to follow a philanthropic emphasis and a narrow understanding of stakeholder concept and community involvement. The main source of controversy about corporate legitimacy emerged from APP's decision to integrate a plantation-based pulp-industry model. Land tenure and enforcement of ownership rights are critical conditions for establishment of plantation-based pulp industry in the local context of China.⁽¹⁾

Furthermore, the three companies in this study have not yet considered their full-scale social impact in China, or they appear to have varying notions about their societal role, which signals a somewhat limited view of the implications of social-impact assessments in general. Hence, the evidence from the forest industry suggests the need for broadening the corporate scope to include improved stakeholder involvement in the future. In China this would play out not only in prioritising good relationships with government authorities but also in increasing dialogue with local communities and emerging civil society members to ensure sufficiently wide stakeholder support and legitimacy.

⁽¹⁾ The similar finding is also evident in recent media publicity on a land-ownership conflict of another Finnish company, Stora Enso, in Guangxi Province.

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