

Corporate Social Responsibility and Accounting Credit — Based on the Case of Hainan Honz Pharmaceutical Co.

Lu Sun¹, Ting-ting Zhang¹, Rong-guang Chen², Chunyan Pu²

(1. Sichuan University, Chengdu, China; 2. Xihua University, Chengdu, China)

Abstract: Based on Chinese listed companies “Hainan Honz pharmaceutical co.”, this paper analyzes the two conflict behavior: on the one hand, in 2008, it has been awarded “Excellent Enterprise” and “the most Responsible Enterprise in 30 years of Reform and Opening”; on the other hand, in 2014, it has been found guilty of financial fraud by China Securities Regulatory Commission in 2011 and 2012. This paper investigates the cause of the separation of corporate social responsibility and accounting credit. We analyzes the evaluation system of “the most Responsibility Enterprise” with the method of statistics and classification and also the influencing factors of performing corporate social responsibility. We found the core content of corporate social responsibility evaluation system and the relationship with accounting credit.

Key words: corporate social responsibility; accounting credit; evaluation system of “the most Responsibility Enterprise”; Hainan Honz Pharmaceutical Co., Ltd.

JEL code: M4

1. Questions

30 June 2014, Hainan Regulatory Authority of China Securities Regulatory Commission (hereinafter referred to as CSRC) made the decision that determining Hainan Honz Pharmaceutical Co., Ltd. (hereinafter referred to as HONZ) the illegal facts of financial fraud in 2011 and 2012. Hainan Regulatory Authority decided that HONZ shall be warned and imposed a fine of ¥350,000 and some executives were imposed fines of varying amounts. 7 March 2015, China Securities Times news: Because of inflating profits for two years, HONZ was filed a claim which is the first case in GEM Listed Company.

HONZ has been an excellent company which has a variety of honors such as “Excellent Enterprise” and “the most Responsible Enterprise in 30 years of Reform and Opening”. And “the most Responsible Enterprise in 30 years of Reform and Opening” is 2008’s award of the selection activity of “the most Responsible Enterprise” which is advocated by the government. But why did it have the behavior of financial fraud? Why did corporate social responsibility (hereinafter referred to as CSR) and accounting credit separate? This paper aims to analysis the cause of these problems.

Lu Sun, Ph.D. in Management, Associate Professor, Business School, Sichuan University; research areas/interests: accounting, finance. E-mail: cdsunlu@163.com.

2. The Case of HONZ

Company Name: Hainan Honz Pharmaceutical Co., Ltd.

Stock Code: SZ300086;

Industry: pharmaceutical manufacturing

Listing Date: 2010-05-26

Table 1 HONZ Major Events and CSR Performance

Year	Major Historical Events	CSR Performance	Honors
1994	incorporation		
2007	shareholding reform		China's outstanding brand of high-tech industry
2008	"the most Responsible Enterprise in 30 years of Reform and Opening" "Excellent Enterprise"	eight hundred thousand RMB donations for the Wenchuan earthquake	"the most Responsible Enterprise in 30 years of Reform and Opening" "Excellent Enterprise" "Hainan's most influential star industrial enterprises"
2009			"China's top venture enterprises" "Haikou's innovative enterprises"
2010	IPO	4.5 million donations RMB for the Yushu earthquake and Wenchang rain disaster	"China's top ten most growth enterprises"
2011	financial fraud	Red Face Fund was established Hainan Honz Pharmaceutical Co., Ltd donates one million RMB in the first phase	
2012	financial fraud	Red Face Fund	
2013	investigated by CSRC	1.4 million RMB donations for Yaan earthquake and Puning flood Red Face Fund	
2014	punished by CSRC	Red Face Fund	

Source: Hainan Honz Pharmaceutical Co., Ltd of home page: <http://www.honz.com.cn/about/index.aspx?MenuId=020301>

The following is the basic information of HONZ:

2.1 Developing History

2007, Shareholding reform; 2008, "the most Responsible Enterprise in 30 years of Reform and Opening" and "Excellent Enterprise"; 2009, "China's top venture enterprises" and "Haikou's innovative enterprise"; 2010, IPO; 2011, financial fraud of inflating profits; 2012, financial fraud of inflating profits; 2014 punished by CSRC.

2.2 Charity¹

Red Face Fund² which was established in 2011 has been committed to children's charities in national poverty county. HONZ had donated 16.7 million RMB in several major disasters during 2008-2013 in China.

2.3 Financial Fraud

The amount of HONZ company financial fraud³ is 6.261 million RMB. In 2011, the amount of inflating profits is 3.953 million RMB including recognizing sales revenue 1.568 million RMB in advance and failing the accrued period charge 2.385 million RMB. In 2012, the amount of inflating profits is 2.308 million RMB because

¹ The information comes from Hainan Honz Pharmaceutical Co., Ltd company homepage.

² The Red Face Fund: the Red Face Fund was established on September 23, 2011. The fund was set up by the China children and teenagers' fund and Hainan Honz Pharmaceutical Co., Ltd. As the sponsor, Hainan Honz Pharmaceutical Co., Ltd take the first donation of one million RMB as start-up fund, and it also response for the follow-up funds. The Red Face Fund purpose: committed to children's charities, take care of poor children grow, and offers a variety of forms of aid, promote social harmony and progress.

³ China Securities Regulatory Commission: <http://www.gw.com.cn/news/news/2014/0701/200000358106.shtml>.

of failing the accrued period charge.

We analyze the impact of financial fraud. On the one hand, we collected figures of 2008 to 2012 from HONZ published annual report⁴, which were revenue, operating profit and net profit, and shows them in Table 2 and Figure 1. On the other hand, we figure it out by deducting the financial fraud data in Tables 3 and Figure 2. According to Tables 2 and 3, and Figures 1 and 2, we can see that operating performance of HONZ fell sharply and made loss in 2011, however, HONZ use financial fraud means to turn loss into profits.

Table 2 The Finance Data of HONZ from 2008 to 2012 (In Ten Thousand RMB)

Year	2012	2011	2010	2009	2008
Revenue	36,878	30,674	31,445	21,878	13,585
Operating Profit	1,131	188	16,044	11,428	5,797
Net Profit	1963	353	13932	9758	4952

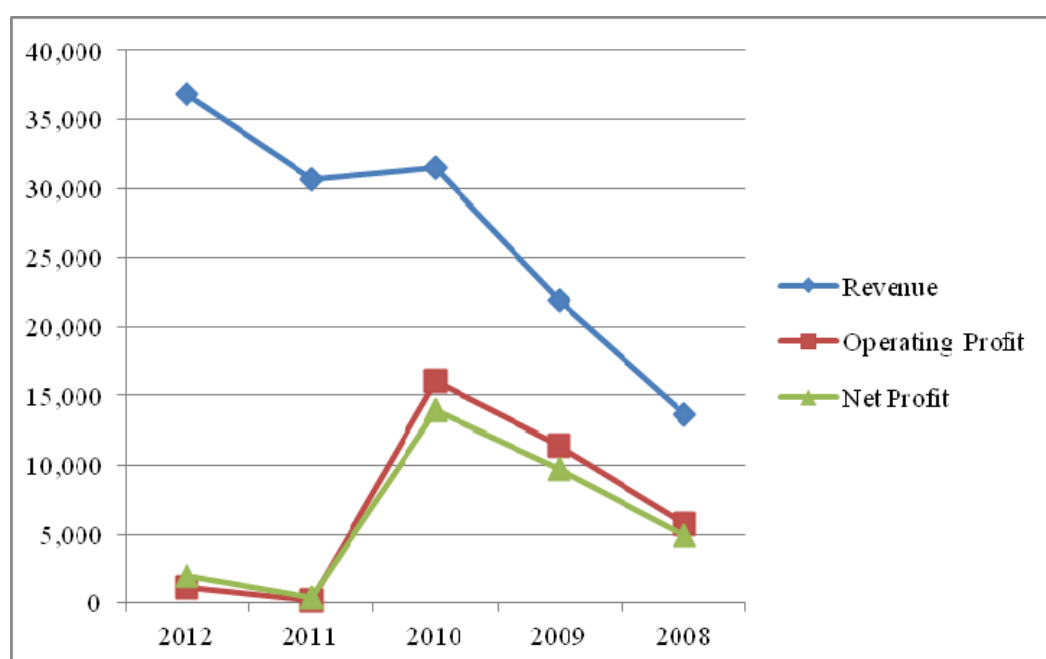


Figure 1 Plotting Line Graph of Finance Data of HONZ from 2008 to 2012

Table 3 The Finance Data after the Deduction of the Financial Fraud of HONZ from 2008 to 2012 (In Ten Thousand RMB)

Year	2012	2011	2010	2009	2008
Revenue	37,034.8	30,517.2	31,445	21,878	13,585
Operating Profit	1,057	-207.3	16,044	11,428	5,797
Net Profit	1889	-42.3	13932	9758	4952

⁴ The information comes from Hainan Honz Pharmaceutical Co., Ltd company homepage.

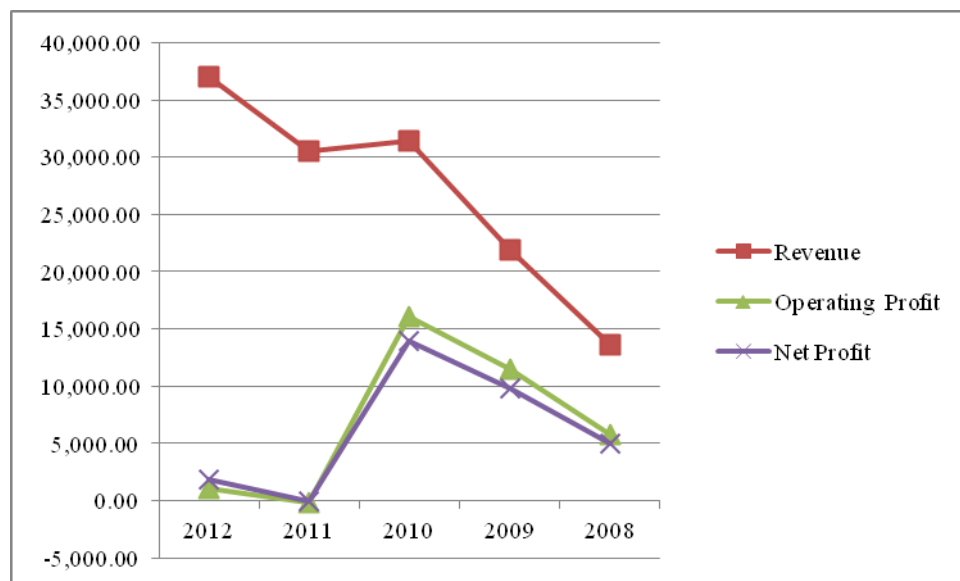


Figure 2 Plotting Line Graph of Finance Data after the Deduction of the Financial Fraud of HONZ from 2008 to 2012

HONZ had won many honorary titles, especially the honor of “the most Responsible Enterprise in 30 years of Reform and Opening”, how could the behavior of financial fraud have happened? We focus on the selection activity of “the most Responsible Enterprise” and hope to find the answer.

3. “The International BBS of China•CSR”

3.1 Origin

“The international BBS of China•CSR (hereinafter referred to as BBS)” was set up in 2005. It aims to advocate the value of “responsibility created harmonization” and promote the spread of the concept of CSR in China. The BBS focuses on the quality, environmental protection and public welfare and it has selected “the most Responsible Enterprises” every year among the whole of China since 2005. So far, there have been more than one hundred enterprises including China Construction Bank, Lenovo and Ping'an of China obtained “the most Responsible Enterprise”. HONZ awarded “the most Responsible Enterprise” in 2008.

3.2 Organization

Guidance units: Ministry Of Commerce of the People's Republic of China, State-owned Assets Supervision and Administration Commission of the State Council, State Administration for Industry & Commerce of the People's Republic of China, General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, State Administration of Work Safety, Overseas Chinese Affairs Office of the State Council, the Red Cross Society of China, China News Service.

3.3 Sponsor

China News Weekly⁵, China Red Cross Foundation⁶

⁵ China News Weekly, sponsored by the China news service. China news editing and publication of “China news weekly” is one of the most well-known political magazine in China. China news agency referred to the China news service, a state news agency of the People's Republic of China. The China news service report the foreign business as its main news, the most of its service object are the people in Hong Kong and Macao compatriots, overseas Chinese, Taiwanese and foreign.

⁶ The Chinese Red Cross foundation is directed by the head of the Red Cross society of China, and it has the independent legal

3.4 Selection Method

Organizing committee issues a set of evaluation index system every year and take synthesis method of information collection, data statistics, enterprise voluntary reporting, a public vote and peer-reviewed.

3.5 Effect

The BBS convenes at the beginning of each year before the two sessions which are the National People's Congress and the Chinese people's political consultative conference (CPPCC). Along with the "China news weekly", the summary of results will be published and served two scene. So it is an important communication platform between government and enterprise. Meanwhile the international mainstream media will be invited to participate in the BBS.

Obviously, the BBS selection has great influence to the society. It is an incentive of government and society to promote CSR. The award of "the most Responsible Enterprise" has great influence to the HONZ. Then we will analyze the evaluation index system of "the most Responsible Enterprise" selection activity.

4. The Evaluation Index System of "The Most Responsible Enterprise" Selection

We have investigated and researched the information of the selection activities from 2005 to 2014⁷, especially the online declaration index system which we called evaluation index system. And from that we get two stages of the evaluation⁸. The first stage is from 2005 to 2008 and we called System I. The second stage is from 2010 to 2013 and we call System II. We analyzed the characteristics of the selection of "the most Social Responsibility Enterprises" based on the comparison of System I and System II, and we get Table 4.

Table 4 The Comparison Table of System I and System II

Level indicators	Secondary indicators	System I	System II
Basic situation	business types and organizational forms	√	√
Policy and Regulation	the number of directors, independent directors and supervisors		√
	the committee in charge of CSR		√
Strategic management system	CSR system certification	√	
	participate in social CSR related associations	√	
	CSR department	√	
	CSR goals	√	
	CSR supervision and evaluation system	√	
	work record about CSR	√	
	CSR report	√	
	into the strategic planning and management system	√	√
Economic performance	performance indicators (revenue, cost and profit)	√	√
	pollutants' types and emissions	√	
	sewage charges	√	
	environmental staff	√	
	expenditure of pollution control and environmental subsidies	√	

person status of the national public offering foundation. The Chinese Red Cross foundation is led by the state council of the People's Republic of China.

⁷ Source: <http://finance.sina.com.cn/hy/20081027/15585434832.shtml> etc.

⁸ The information was all collected apart from 2009 and 2014, you can find the two phase analysis in Table 1.

Corporate Social Responsibility and Accounting Credit-based on the Case of Hainan Honz Pharmaceutical Co.

Environmental performance	honorary titles on environmental protection	√	
	environmental penalties	√	
	measures to avoid or reduce environmental pollution	√	
	participation in social environmental projects	√	
	practices of innovative energy-saving and environmentally friendly development model	√	
	targets and execution of energy conservation and emissions reduction	√	√
	energy management goals		√
	target management and review		√
	energy management is up to standard		√
	centralized purchasing mechanism		√
	raw materials recycling mechanism		√
	management methods of water-saving		√
	management methods of wastewater's treatment and discharge		√
	EIA projects		√
	ISO14001		√
	management methods of hazardous waste's transportation and disposal		√
Charity	participate in direct public welfare activities	√	
	charitable donations behavior	√	
	measures to improve CSR environment	√	
	charity plan		√
	management processes and policies of social donations		√
Labor Management	medical services	√	
	facilities of food, accommodation and sanitation	√	
	prohibition of forced labor	√	
	child labor policy	√	√
	prohibition of discrimination	√	√
	collective bargaining	√	√
	reasonable working hours	√	√
	occupational disease	√	√
	production safety accident	√	√
	salary system	√	√
	dispatch employees equal pay		√
	staff training		√
	retired staff management		√
creditors	deceive and drag loan maliciously	√	
Customer	product quality and safety issues	√	
	marketing fraud	√	
	customer suggestions or complaints management mechanism		√
Supplier	payment policy	√	
	malicious fraud and deferred loan	√	
	promote upstream and downstream businesses perform CSR	√	
	promote and propagandize CSR	√	

	responsibility performance of the supplier		√
	contract terms about human rights		√
	supplier's regular third party audits		√
Government	tax law	√	√
	apply for government subsidies and national fund support		√
Community	management measures to protect and pacify residents and facilities		√
	encourage employees to participate in community service		√
Anti-corruption	anti-corruption policies and management practices		√
	number of corruption cases and treatment measures		√

Source: Sina Finance: <http://finance.sina.com.cn>.

According to the analysis, we can make the conclusion:

(1) The evaluation index system has been improved from stage one to two. There is no essential difference on content by comparing the two systems, however, it reflects the wider range of CSR and more requirement of institutionalization. In terms of the range, the System II increases the responsibility of community and anti-corruption; In terms of institutionalization, System II requires not only a behavior, but also the strategy and management system. For example, System II requires customer suggestions or complaints management mechanism in Customer management; charity plan, management processes and policies of social donations in Charity.

(2) The substance of the CSR is return to the society in China. It is a system which encourages enterprises clearly to care more about the disadvantaged groups, charities and environmental protection, which takes great pressure of payment to the enterprises. Jian-rong Ma⁹ (2008), director of Lenovo group Ltd, pointed out that "sometimes, the media, the government, the enterprise and the social in China regarded CSR as a payment, one-way payment. However, CSR is not a simply pay-out and sacrifice".

(3) Performance of the CSR is the government's requirement. It is obvious that this is a continuous government-leading selection event. The purpose of this selection is to encourage enterprises more involved in environmental protection and charity. As a result, this event strongly directs the social media and affects enterprises' behavior in CSR, which makes enterprise feel the behavior of CSR, especially charity, is an important chance to shape their social image.

(4) Enterprises care more about the recognition and praise of government rather than accounting credit. The International Accounting Standards requires faithful presentation and so does China's Accounting Standards. It is the basic professional ethics which we called accounting credit, and it should be the foundation of CSR. However, Honz opted for maintaining his social image instead accounting credit in trouble time.

5. Conclusion

Accounting credit is the foundation of CSR, so CSR and accounting credit should be inseparable. Wei-ying Zhang (2007), National School of Development at Peking University, proposed that the real responsibility of entrepreneurs should be creating more value for customers, more job opportunities for people, and more taxes to the country on the basis of honest and trustworthy. But, nowadays the Chinese enterprises are forced to perform CSR because of the pressure of government and society, so they have no time and energy for accounting credit.

⁹ The No. 3 Record of the International BBS of China•CSR, *China News Weekly*.

On the other hand, they do care more about their own social image instead of their image of integrity. And it is easy to take the performance of CSR away from accounting credit.

The government and society should pay more attention to the establishment of CSR foundation which is accounting credit. We need to re-clarify the concept, content and scope of the CSR, the government's role in the process of CSR. Think about how do the corporate really fulfill CSR voluntarily, and where does the power come from?

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Appendix A: List of "The Most Responsible Enterprise" Selection Evaluation Dimension Analysis

See Table A1

Table A1 List of "The Most Responsible Enterprise" Selection Evaluation Dimension Analysis

Dimension	2005	2006	2007	2008	2010	2011	2012	2013
Enterprises status	√	√	√	√	√	√	√	√
Environmental protection (Environmental performance)	√	√	√	√	√	√	√	√
Consumer rights (Customer management)	√	√	√	√	√	√	√	√
Corporate reputation	√	√	√	√				
Social activities (charity)	√	√	√	√	√	√	√	√
Taxation	√	√	√	√	√	√	√	√
Others	√	√	√	√	√	√	√	√
Policy and regulation					√	√	√	√
Economic performance					√	√	√	√
Labor management					√	√	√	√
Supplier management					√	√	√	√
Community impact					√	√	√	√
Anti-corruption-related					√	√	√	√