

NONPROFITS

## Should brands be blamed for not doing due diligence on Chinese Red Cross aid?

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*Over the last three weeks, doctors in highly infected areas have been forced to ask for help on social media. Photo of Red Cross facility: Courtesy of China Daily*

By A LUXURY DAILY COLUMNIST

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Under a recent Weibo post about a **luxury company's** pledge to fight the **coronavirus** with a large donation, a user commented that they "feel bad that its money and good intentions were wasted on the Red Cross."

This sentiment might seem incomprehensible in other parts of the world where the Red Cross is seen as a caring and humane institution, but it is a sentiment that nevertheless is common amongst many Chinese.

In China, the public is now enraged by the nonprofit's mishandling of donations in the tens of millions from luxury companies such as **LVMH**, Richemont and **Coach** all while the number of infected has climbed to over 72,000 since the virus first arrived.

At the end of January, when Chinese people found out that the majority of their donated medical supplies were being hoarded in a Red Cross warehouse, a storm of outrage and disappointment flooded Chinese social media.

Some Weibo users described the organization as a "black hole," putting corporate donors in an awkward position: Should they trust China's Red Cross, which already had an iffy reputation before this latest scandal?

The CEO of Creative Capital, Louis Houdart, thinks that companies should not have to pay for the Red Cross' mistakes.

"I think it is really unfair to judge donors like this," he said. "Especially if they give to an organization like the Red Cross, which is supposed to be well-managed. This time, the Red Cross did a very bad job, but that can't be the fault of brands."

As brands show their solidarity with the people of China through donations, how should they choose an organization they can trust? And to what extent should they be responsible for not doing their due diligence on the charities they donate to?

Why does China have a trust issue with the Red Cross?

Over the last three weeks, more doctors in highly infected areas have been forced to ask for help on social media. To this, Chinese people responded on [WeChat](#) and Weibo by asking: "Where did our donations go?" and "Why isn't the Red Cross doing its job?"

China's Red Cross Society had been linked to corruption and inefficient practices long before this recent logistical mess.

Founded in 1904, it is a member of the International Red Cross Foundation, but is generally seen by the public as an extension of China's government, since most Red Cross officials are also high-level party members.

In the past, China's largest charity has been at the center of multiple scandals, including the mishandling of public donations during the 2008 Sichuan earthquake, and a scandal in 2011 that saw Chinese Internet celebrity Guo Meimei falsely call herself the Red Cross business manager on [Weibo](#) while the public questioned the origins of her lavish lifestyle. Public donations [dropped 23.68 percent](#) the next year because of this perception.

Therefore, instead of donating to charities, many Chinese would rather give directly to hospitals and doctors in need.

"I don't think the corporate donations have helped locals and doctors," said one anonymous donor who facilitated the transportation of more than 1,500 N95 masks from New York to a [Wuhan hospital](#).

The donor said that despite all the trouble it took him, like having to reach out to strangers that were taking outbound flights back to China to transport the masks, he still felt more comfortable about this method than donating to the big charities.

Meanwhile, an anonymous person on a luxury brand's China staff told *Jing Daily* that after considering a monetary donation, its team decided it was better to purchase medical supplies and deliver them directly to hospitals themselves.

The government responded to the public's fury at the Red Cross by having a medical logistics company sort out the charity's warehouse on Feb. 1 and firing the deputy director of Hubei Red Cross on Feb. 4 for dereliction of duty over the improper handling of donations.

But the anger from Chinese citizens has not quieted down, and their trust issues are not just with the charity.

Netizens have started holding the government accountable by analyzing existing data on regional Red Cross Web sites, finding that only 19.47 percent of N95 masks were sent to Wuhan hospitals on a certain day last week while the rest were distributed to different government agencies for undisclosed usage.

As such, many are now demanding greater transparency from the government.

Why is it difficult for companies to make a balanced decision?

Amid a crisis such as the coronavirus, corporations are under pressure to react quickly.

"International companies, especially renowned companies, are under two main limitations regarding virus donations time and information," said Tao Ze, founder of the data-driven CSR (corporate social responsibility) consultancy Yishan.

"On one hand, the outbreak happened unexpectedly, and the company hopes to complete the donation in a short amount of time to demonstrate its corporate responsibility," he said.

"On the other hand, combating a virus crisis is an irregular CSR project, so many corporate CSR leaders don't have existing partners to reach out to."

Aside from the lack of time and information, Chinese citizens also witnessed donation restrictions from their own government.

On Jan. 26, China's Ministry of Civil Affairs announced that all public donations for the outbreak were to be funneled through five appointed charities: the Hubei and Wuhan Red Crosses, the Hubei and Wuhan Charity Federations, and the Hubei Teenagers Development Foundation.

But Mr. Tao adds it is not against the law to donate to other charities.

**Luxury Companies' Donations Against COVID-19 BEFORE Red Cross Scandal**

COMPANY NAME	DATE OF PLEDGE	DONATION AMOUNT (USD, thousands)
Coach	Jan 24	140
Swarovski	Jan 25	430
Estée Lauder	Jan 26	285
LVMH	Jan 27	2,230
L'Oreal	Jan 27	720
Kering	Jan 28	1,075
PVH	Jan 28	300
Richemont	Jan 30	1,400
Hugo Boss	Jan 30	140

*Luxury companies' donations to fight COVID-19 before the Chinese Red Cross scandal. Source: Jing Daily*

**Luxury Companies' Donations Against COVID-19 AFTER Red Cross Scandal**

COMPANY NAME	DATE OF PLEDGE	DONATION AMOUNT (USD, thousands)
Versace	Jan 31	140
Ports	Feb 2	530 (clothes value)
Hermès	Feb 4	720
Estée Lauder	Feb 7	430
De Beers	Feb 10	140
Zegna	Feb 11	430
MCM	Feb 13	140

*Luxury companies' donations to fight COVID-19 after the Chinese Red Cross scandal. Source: Jing Daily*

And before the scandal broke on Jan. 30, *Jing Daily* determined that all of the public aid donated by luxury companies went to these five organizations, with the majority of them choosing to give through the Red Cross.

But since early February, luxury companies such as **De Beers**, Ermenegildo Zegna and MCM have notably chosen to work with organizations outside the Red Cross system.

One luxury brand **Hermès** recently announced it was donating \$720,000 (5 million yuan) to help safeguard China's medical professionals through the Shanghai Soong Ching Ling Foundation (), which is known for its work empowering women and children. It is unclear whether these donors' decisions were influenced by the Red Cross scandal or not.

But Hermès' decision might have to do with the brand's everyday preparedness.

The China staff of the French luxury goods manufacturer told *Jing Daily* that they chose the Soong Ching Ling Foundation because the brand's two partners had built a good relationship with the foundation in the past.

But without a known partner, choosing a charity becomes a default process, said Mr. Tao.

"When companies are on a time crunch and don't have back-up partners, the five charities appointed by the ministry become their priority plan," he said.

AS WITH public relations crises, companies should be prepared to make quick CSR decisions.

"Due diligence involves the evaluation of whether the charitable mission matches the company's business strategies, and the duty to keep legal and public-relations risks under control," Mr. Tao said.

But for luxury companies, data analytics should also play an increasingly important role in facilitating these decisions.

Lessons for a company CSR team on what to do before making public donations

- Develop a network of potential partners for everyday preparedness
- Make sure your business mission aligns with the chosen charity
- Seek data to facilitate the decision-making process

*Ruonan Zheng contributed reporting.*

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