



# CSR GUIDE FOR MULTINATIONAL CORPORATIONS IN CHINA

**Prosperity with Integrity**

**Lanlin Bu and Michael Bloomfield**  
with Jiali An

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We would like to thank everyone who kindly provided advice, inspiration and encouragement with special thanks to Peiyuan Guo and Kelly Yu for their outstanding contributions.

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## Partners with Distribution and Promotion:

China Committee of Corporate Citizenship  
American Chamber of Commerce, China  
Canada China Business Council

## Publisher and Copyright:

ISBN: 978-092-901-044-1  
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## Spelling:

Standard Canadian spelling is used in this document, for example labour vs. labor and centre vs. center.

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# FOREWORD

by **Professor Bill Valentino**

Do you believe that corporate social responsibility (CSR) is not simply about looking, feeling and acting good? Do you wonder why currently learning how to be a practitioner of CSR is less about strategic business thinking and more about marketing and communications? Do you have doubts about why the current methods of CSR education predominantly emphasize theories, awards ceremonies and other promotional events, show-and-tell case studies, eye-catching sustainability reports, ethics courses in MBA programs and zealous moral, rational and economic arguments?

If you have responded affirmatively to these questions, you are definitely already reflecting deeply on why a strategic CSR perspective is important, and perhaps you have already realized how it can be useful to the bigger picture of managing an organization in China. Practitioners and the companies who employ them need a starting point for comprehending how CSR fits into China's hyper-competitive business environment. In a situation where shifting priorities must be managed dynamically, CSR has emerged to transform many interrelated networks of problems and issues facing companies into a strategic map. This represents a mindset that facilitates adapting traditional business thinking and practices to a dramatically changing world.

Strategic and design thinkers have the ability to look at the world around them and frame, focus and explain what is happening. They can transform these observations and trends into comprehensible and action-oriented knowledge. The partnership of two organizations I immensely value and respect, **Harmony Foundation** and **SynTao**, have succeeded in writing this CSR guide with exactly this outcome in mind.

Harmony and SynTao have meticulously collected experience and information in this guide, which are vital to practitioners who need it to understand and effectively implement CSR in their companies, especially in the context of China. A guide such as this did not exist so they had to create it. In doing so, they have illuminated the emerging discipline of CSR by providing managers and professionals in companies with a map for making CSR an integral part of a company's strategic business model and planning process. The strategic and design views of the authors rest on dedicated, inspiring and impressive backgrounds in research, experience and deep practical wisdom, which they have acquired over decades of participation in the evolution of CSR globally, but most importantly in China.

CSR has become ubiquitous in China; educating practitioners in the capacities, mindsets and tools to implement it is where this guide will have its deepest impact. The authors' work frames the issues and focuses on strategic and conceptual thinking as opposed to the feel-good, look-good and act-good aura that makes CSR seem more like charity or PR. Consequently, the authors reveal a strategic process that responds far more effectively to a rapidly changing world and its needs.

China's economic miracle is anchored in social stability. Its ongoing economic success calls for sustainable growth based on a new ideology of the Chinese government that focuses on a more

balanced society. Here is where a new brand of CSR with Chinese characteristics is emerging.

On a policy level the Chinese government has placed great emphasis on strengthening social balance and creating a harmonious society to ease destabilizing forces that are growing in China today. This reflects the government's preeminent task of putting China's development on a more sustainable track and ensuring continued stability.

Since 2005 China has repeatedly stressed the mantra of building a harmonious society. The principle is fundamentally about putting people first based on the ubiquitous ideology of a "scientific outlook on development." China's new government promises to accelerate this movement.

Observing the rapid changes and transformation of China, it is easy to understand how, given the huge size and scope of what is taking place in China today, the focus on CSR as a factor vital to harmony, stability and sustainable development, is critically important for China and the world.

**This guide delivers what the title promises – a clear analysis, a reference work, a field manual for practitioners of CSR in China. It is a guide that maps out the uncharted course of sharing the basic knowledge needed to make CSR strategic and results-oriented for both company and society. It forecasts and recommends how to go about using CSR, not to predict the future but as a means to create it.**

China has changed radically in the past three decades and continues to change at an even faster pace. The pathway to a sustainable world is filled with challenges - technological, political, social, ethical, economic and environmental. Challenges of the mind are the biggest we face in understanding why we should care, how we interact with the world around us, and how achieving sustainability forces everyone to choose not to be bystanders but active participants. It is critical for businesses in China now more than ever to grasp that this is happening and how to recognize the opportunities it offers.

This Guide should be further taken as a strong argument for better education, for promoting CSR in a way that it becomes a mindset for how everyone thinks and reflects on how their jobs and careers contribute to creating a more sustainable world. Academia needs to create a discipline for CSR practitioners and companies, a professional career path that focuses on strategic processes, purpose and impacts.

As someone who has given so many presentations, lectures and classes on the topic of a strategic CSR perspective and sustainability, I am passionate about helping people learn how CSR melds a mix of business goals and societal expectations into an attempt to define the future direction and place of business in society.

My teaching and research at Beijing Normal University have focused on five identifiable trends in China that are important elements of business strategy that make CSR increasingly relevant. These are: affluence, ecological sustainability, globalization, the flow of information and brands.

Increasing affluence in China has pushed CSR upward on the agendas of companies because it leads

to changing social expectations. These expectations are enhanced by a growing concern for the environment, as can be witnessed in the rise of public activism regarding environmental issues in China.

Globalization is exposing China to a global audience and the behavior of foreign and domestic firms are coming under greater scrutiny. This magnifies the complexity of doing business around the world parallel to the growing expectations of the increasingly sophisticated Chinese domestic audience.

The fact that China is increasingly online and connected has caused a revolution in communications which has given the Chinese public previously unimaginable abilities to monitor companies, and widely and quickly disseminate information on actions that they perceive as irresponsible or unsustainable.

The flow of information ultimately affects brands, which are more valuable than ever because of the competitive advantage they hold. In this respect CSR has taken on the task of protecting a very important investment that is essential to every company's continued success. CSR is not rocket science. It is basically common sense combined with an enlightened self-interest approach to company management and decision-making. It is impossible to prescribe a best CSR mix to deal with China's rapidly changing business landscape because CSR depends a lot on industry context and diverse strategies of individual companies for delivering value to a very broad range of stakeholders.

Effective strategy provides companies with sources of sustainable competitive advantage. The purpose of CSR is to identify these sources by understanding that the interdependence between market, strategy and stakeholder needs must be strategically planned.

Finally, teaching, writing about and practicing a strategic CSR perspective always make me think of this quote from Einstein: *"We can't solve problems by using the same kind of thinking we used when we created them."*

**Change is needed in how we educate, learn about and effectively integrate CSR into business operations. This Guide from Harmony and SynTao is not only a huge leap in that direction but more than that, it gives the tools and hope to current practitioners of CSR and future professionals in this field to be confident that great changes are within their imagination and grasp. Thanks for the strategic and design thinkers who have made the invaluable contribution of this Guide for CSR in China.**

-- **Bill Valentino**, January 15<sup>th</sup>, 2013, Beijing

*Bill Valentino is a Professor and Deputy Director of the China Institute for Social Responsibility at Beijing Normal University's School of Social Development and Public Policy and an Adjunct Professor at Tsinghua University's Centre for International Communications. Retired in 2011 as the VP of Corporate Social Responsibility for a large multinational company in China based in Beijing, he has been living and working continuously in China since 1987.*

# ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
AMCHAM	American Chamber of Commerce
CASS	Chinese Academy of Social Sciences
CBA	China Banking Association
CBCSD	China Business Council for Sustainable Development
CCAA	Chinese Certification and Accreditation Agency
CNTAC	China National Textile and Apparel Council
CSC9000T	China Social Compliance 9000 for Textile and Apparel Industry
CBSR	Canadian Business for Social Responsibility
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
CSR-GATES	China Sustainability Reporting Guidelines for Apparel and Textile Enterprises
CYDF	China Youth Development Foundation
ECFIC	Executive Committee of Foreign Investment Companies
EHS	Environment, Health and Safety
EICC	Electronics Industry Code of Conduct
FON	Friends of Nature
GeSI	Global e-Sustainability Initiative
GONGO	Government-Organized Non-Government Organization
GRI	Global Reporting Initiative
HR	Human Resources
ICT	Information and Communication Technology
ILO	International Labour Organization
IPO	Initial Public Offering
ISC	Institute for Sustainable Communities
ISEAL	International Social and Environmental Accreditation and Labeling
KPI	Key Performance Indicator
MNC	Multinational Corporation
OEM	Original Equipment Manufacturer
PRC	People's Republic of China
SA8000	Social Accountability 8000
SAI	Social Accountability International
SASAC	State-owned Assets Supervision and Administration Commission
SEPA	State Environmental Protection Administration
SIGMA	Sustainability Integrated Guidelines for Management
SME	Small and Medium Enterprises
SOE	State Owned Enterprises
SROI	Social Return on Investment
SSE	Shanghai Stock Exchange
SZSE	Shenzhen Stock Exchange
WTO	World Trade Organization

# EXECUTIVE SUMMARY

In recent years companies from around the world have flocked to China, attracted by its rapidly growing economy, expanding markets, cheap labour, and low standards for environmental protection, health and safety. That is changing -- dramatically.

By October 2011 there were over 730,000 multinational corporations (MNCs) registered in China. Although MNCs brought the concept of Corporate Social Responsibility (CSR) to China, studies show under-performance, both in comparison to their practices in developed countries and with respect to rising Chinese expectations.

While CSR is relatively new in China, it has developed quickly. Both Chinese governments and the public increasingly demand that businesses improve their performance on public health, environmental protection, worker safety and social development. Regulatory compliance and image marketing will be inadequate.

In practice, however, it matters less what motivates improved performance and more how one responds in effective and practical ways that benefit not only business, but society as well.

The **primary purpose** of this guide is to help CSR practitioners and business leaders to make that transition to society-based CSR and to

- understand the public's view of CSR and the benefits of substance over appearance,
- grasp the importance of CSR in China and trends that lie ahead,
- develop meaningful CSR programs that meet societal and business needs,
- build long-term community relationships through productive partnerships, and
- learn from successful experiences and best practices in CSR.

**Chapter one** delivers a brief history of CSR and makes a compelling case for society-oriented CSR, an approach that aligns business values and behaviour with the expectations and needs of stakeholders. This is known as Transformational CSR.

**Chapter two** examines CSR in China -- history, state of the art, laws and regulations, CSR performance of multinational corporations (MNCs) and challenges going forward.

CSR development in China has gone through three stages since the 1990s – introduction, observation and development. Now the Chinese government is poised to use CSR to address social and environmental issues as part of economic and social reforms, and to promote sustainable development.

At present, there are over 30 CSR-relevant national laws, regulations and guidelines in China. Chapter two highlights the most important ones directly addressing CSR, as well as guidelines from Chinese business associations and stock exchanges. The most widely used CSR reporting guidelines in China for MNCs are the UN Global Compact and Global Reporting Initiatives. Alternatively, the framework most commonly used by SOEs in China is CASS CSR2.0, developed by the CSR Centre at the Chinese Academy of Social Sciences (CASS).

Finally, chapter two looks at internal and external CSR challenges facing MNCs in China, including poor coordination with local branches and suppliers, failure to address more stringent regulations and increasing public expectations, inadequate integration of CSR and sustainability in planning and decision-making, and weak community relations.

**Chapter three** begins by making the business case for CSR in China. Subsequently, it provides practical information on how to analyze current practices and improve CSR by engaging stakeholders, including government, employees, media, NGOs, business partners and customers. Recommendations address vital topics including how to

- improve cooperation between headquarters and branches,
- advance CSR through human resources,
- conduct self-evaluation on CSR,
- strengthen community engagement,
- improve philanthropy,
- find and work with capable NGO partners, and
- upgrade CSR reporting.

Case studies presented in this guide focus on the positive, offering examples of companies whose CSR strategies and sustainability programs have increased both corporate and societal benefits. Unfortunately, negative examples are easily found elsewhere.

## Options Going Forward

Every society reaches moments of reckoning and China is no exception. Seriously contaminated food, water and air, with consequent damage to public health and the environment, have led to rising social unrest and political action. Demands for a higher level of performance on labour, health, environmental stewardship and social development are growing louder and resulting in concrete actions by government and the public. It would be prudent for business to respond proactively to these calls for action.

Each company, therefore, has its own decisions to make: to continue business as usual, with a risk of being compelled to change and therefore left behind, or to align its business strategy and sustainability outcomes to meet the needs of society. Motivated by ethical business principles, forward-looking companies that are successful over the long term will be those which operate with social and environmental responsibility as core values. They will earn far greater possibilities to enhance their competitiveness and brand approval by actively pursuing improvements in overall conditions in the communities where they operate and in the world that is the market for their goods and services.

This publication may have been written for MNCs operating in China, but it is much more. It is a blueprint for success for multinational or state-owned enterprises in China or anywhere in the world. It promotes greater cooperation between business and society in order to achieve beneficial social, economic and environmental outcomes.

Our hope is that senior business leaders, as well as CSR proponents, will find this guide useful in shaping better business strategies and practices that are based on a sound understanding of CSR and a renewed commitment to forming effective partnerships with society in order to achieve a more sustainable future.



# INTRODUCTION

- BACKGROUND OF THIS RESEARCH
- PURPOSE OF THIS GUIDE
- RESEARCH APPROACH
- AUTHORSHIP

# INTRODUCTION



## BACKGROUND OF THIS RESEARCH

The majority of economists now agree that by 2030 the Chinese economy will overtake that of the United States. In anticipation, foreign companies have increasingly entered the People's Republic of China (PRC). According to the Ministry of Commerce, PRC, by the end of October 2011, there were over 730,000 foreign companies registered in China.

Vice commerce minister Gao Hucheng said at the fifth round table meeting with multinational corporation leaders on June 22, 2012 that 490 out of the world top 500 companies have funded and established more than 1,600 research and development centers and regional headquarters in China<sup>1</sup>. Foreign-invested firms have reaped great benefits from China's huge market. Sales by these companies in China exceeded 33 trillion RMB (\$5.24 trillion USD) in 2010 alone.

While China's modern development has been remarkable, it has been accompanied by considerable harm to public health, social development and the environment. While foreign companies brought the concept of Corporate Social Responsibility (CSR) to China through their supply chain management, most CSR programs remain driven by public relations and marketing, or are used to cover up bad behaviour. Few companies truly view societal needs as a priority. Studies show that many leading MNCs tend to practice less CSR in developing countries, including China, and put more emphasis on CSR in developed countries where they face more pressure from their consumers and investors (Lam, 2009).

There are various reasons for the insufficient CSR performance of MNCs in China:

- Some companies do not recognize or respect the development of CSR in China and just follow the rules, taking advantage of weaker social and environmental requirements;
- Some companies are just operating branches with limited authority. Their CSR has to follow head office instructions, even if the head office knows little about CSR requirements and societal needs and expectations in China; and
- Some companies are at the early stage of settling down in China. Their funds and activities are focused on launching their business in China; they fail to appreciate CSR as part of that process.

<sup>1</sup> [http://www.gov.cn/jrzq/2012-06/22/content\\_2167702.htm](http://www.gov.cn/jrzq/2012-06/22/content_2167702.htm)

This approach will have growing consequences. Momentum is building for action to address this deficit. As Hon. Sergio Marchi, past president of the Canada China Business Council, said during an International Coaching and CSR Conference in Beijing in 2007, *“In an era where CSR is developing in China, and where the government is looking for business to lead, there is a great opportunity for companies to distinguish themselves, to be entrepreneurial in CSR, and to build reputations as good corporate citizens.”*

It is prudent to respond to these calls for action -- and they are growing louder. MNCs operating in China need to improve their performance on public health, worker safety and environmental protection, and at the same time contribute to social development. Such action is not only fair, but also is increasingly essential for success in China.

This presents two challenges. The first is to make sure that MNCs have a clear understanding of China’s rising CSR expectations and how to get the job done successfully. The second is to ensure that what Chinese companies learn from MNCs are best practices, and not bad habits.

## PURPOSE OF THIS GUIDE

Clearly there is the need for a comprehensive and practical CSR guide which can be used by companies to develop and implement a successful CSR program for China. Existing guides are either too general or they focus on individual companies or industries.

This guide, therefore, is meant to help CSR teams and leadership in MNCs to

- understand CSR from a societal point of view and to value the benefits of substance over appearance,
- gain knowledge of the CSR state-of-the-art in China,
- develop meaningful CSR which meets both societal and business interests and needs,
- build long-term relationships with local communities through reliable partnerships with civil society, and
- share successful experiences and lessons learned.

We hope that senior business leaders and CSR practitioners alike will find this guide useful in shaping their business strategies more effectively through better understanding of CSR as part of their business mandate. In addition, we hope to see this guide become a valued reference for other CSR practitioners and advisors, such as consultants, Chinese domestic companies, academics and government officials. We hope that it will help to steer marketing and branding-based CSR more toward society-focused social and environmental regeneration practices that are beneficial to both society and business.

## RESEARCH APPROACH

This guide is based upon extensive research that includes benchmark studies and surveys, CSR policies, issues and cases in China, as well as corporate websites of selected international companies. In addition, this research also draws upon important CSR guidelines/frameworks such as the Global Reporting Initiative (GRI), the United Nations Global Compact, ISO26000 and others.

## INTRODUCTION

Moreover, we also incorporate the Harmony Foundation's substantial experience working with business and within China, SynTao's working experience with their clients and their considerable knowledge about CSR practices in China, and the knowledge and insight contributed by a host of expert advisors and reviewers.

## AUTHORSHIP

Lanlin Bu and Michael Bloomfield initiated and managed this CSR guide project. They were principal authors, leading and coordinating the project, and are responsible for its overall design, development and final content.

**Lanlin Bu** is the Leader of Harmony's China Program, promoting public engagement and cooperation among business, government and communities in addressing environment and development issues. Her Master degree in Urban Planning, Bachelor degree in Architectural Design, experience of over ten years as urban planner in China and extensive research on CSR provide her with profound insights into the changes in China and how business and society can work together to achieve sustainable development.

**Michael Bloomfield**, Founder and Executive Director of the Harmony Foundation of Canada, has broad experience with environment, community development and international issues. Since 1985, he has led Harmony to build bridges between business, government and communities on environment and development issues, pioneering work for which the Foundation has been widely recognized. His insights on conflict resolution, cooperative problem solving and ethical decision-making assist many others to take positive action.

The principal authors were delighted that SynTao agreed to join the effort. We acknowledge with appreciation the support of Peiyuan Guo, General Manager of SynTao and the research and writing provided by Jiali An from SynTao for sections of Chapter 2 and Chapter 3.

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Maria Lai-Ling Lam. (2009) CSR Movement in China: What can foreign corporations' CSR programs in China do to universal values? International Society of Universal Dialogue Eighth World Congress: Dialogue among Cultures: Peace, Justice and Harmony. Beijing: International Studies University. 23-28 July, 2009. From <http://isud.typepad.com/files/lam1.doc>.

# CHAPTER 1

## OVERVIEW OF CSR

- UNDERSTANDING CSR
- TRANSFORMATIONAL CSR

The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations.



# UNDERSTANDING CSR

## 1. Brief History of CSR

In Ancient Mesopotamia (1700BC), King Hammurabi's code said if a builder built a house for someone, and did not construct it properly, and the house which he built collapsed and killed its owner, then that builder should be put to death. This might be the earliest example of business social responsibility in human history.

Modern CSR started in the middle of 20<sup>th</sup> century. Howard R. Bowen published his seminal book, *Social Responsibilities of the Businessman* in 1953, and as a result, he has been called "Father of CSR." In 1963, Joseph W. McGuire stated in his book, *Business and Society*, "*The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations*" (ThinkingShift, 2007). It is important to note that CSR was not used as a branding tool during these earlier times. Instead, during the 1950s the focus of CSR was on business responsibilities to society, with little discussion of connecting CSR with business benefit. In the 1960s, as environmental and social activists called for higher standards of business and government performance, interest in CSR became more active.

Then scandals in the late 1980s, on Wall Street and in the USA defense industries, eroded public trust in big business. As more unethical corporate practices were exposed worldwide, scrutiny of corporate behaviour became the norm. Customers organized campaigns against alleged unethical business practices by companies such as Nestle, Union Carbide and General Motors, among others. General Dynamics established the very first corporate ethics office in the USA, after the firm was investigated by the USA government for pricing scams (The Economist, April 2000). Companies reacted to these public campaigns by adopting CSR as risk management and public relation tools. Ever since then, it has largely stayed that way.

By the end of 20<sup>th</sup> century, three oil industry events -- Exxon's oil spill in Alaska in 1989, Shell's planned sinking of Brent Spar<sup>2</sup> oil platform in 1995 and the execution of nine Ogoni activists due to a perceived "quid-pro-quo" agreement between the Nigerian military and Shell -- "*triggered an unexpected public backlash against multi-national corporations*" (Azer, 2001). After that, reports about sweatshops

<sup>2</sup> **Brent Spar** was a North Sea oil storage and tanker-loading buoy in the Brent oilfield, operated by Shell UK

producing for Nike, Disney and other companies raised further public demands for corporate social responsibility. By 2000, most major corporations had made some commitment to the principles of CSR; however, *“as CEOs celebrated CSR’s ability to create shareholder value by enhancing brand image, critics became even more concerned that CSR was less about people and the planet than it was about public relations and profits”* (Azer, 2001).

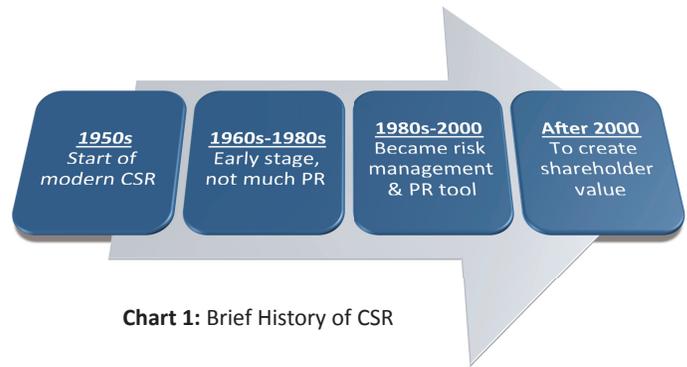


Chart 1: Brief History of CSR

## 2. Components of CSR

Since the concept of CSR was created, there never has been a clear, widely accepted definition. A few other terms are commonly used, including corporate responsibility, corporate accountability, corporate ethics, corporate citizenship, business sustainability, triple bottom line and responsible business.

Instead of joining the debate on definition, we prefer to focus on the major components of CSR, which generally include the following:

### 2.1 Environmental protection

Take a precautionary approach to environmental issues and responsibilities; take responsibility for the impact on the environment caused by business, working proactively to improve performance in reducing environmental damage significantly and using natural resources and energy more efficiently throughout all operations.

### 2.2 Labour health and security

Avoid all forms of forced and compulsory labour; eliminate discrimination with respect to recruitment and employment; treat all workers fairly; uphold the principle of freedom of association and recognize the right to collective bargaining; provide necessary protection for workers and ensure that employee health and safety meets international standards; provide training and career development.

### 2.3 Human rights

Treat all individuals respectfully, regardless of their background or personal characteristics; avoid all forms of forced and compulsory labour whether directly or indirectly connected to one’s own business.

### 2.4 Stakeholder/community engagement

Understand and respect the needs and concerns of stakeholders and engage them sincerely in decision-making; help with local employment creation, education, social investment, health and other public interests; form partnerships with local organizations and encourage employees to volunteer for community initiatives.

## 2.5 Business ethics

Ensure accountability, transparency, ethical conduct, compliance with all laws and regulations and respect for stakeholder interests; work against corruption in all forms.

## 2.6 Corporate philanthropy

Provide disaster relief and invest generously in ongoing social development, culture, education, public and environmental health and safety.

# 3. Misunderstandings of CSR

The basic principle upon which CSR is based is that companies should contribute to social and environmental benefits that make the world a better place to live. Unfortunately, over the past couple of decades many CSR practices are little more than public relations campaigns designed to build favourable images for companies or to market their products. At a time when world problems such as environmental degradation, poverty, and social injustice are perceived to be more serious than ever, these image building practices are drawing increasing criticism, particularly when important causes are manipulated for commercial purposes.

The question is this: How can we do a better job with CSR to bring about benefits for society as well as for business? For some insight, let's take a look at a few prevalent misunderstandings of CSR, as exhibited in current practice:

### 3.1 CSR is charity, and my company doesn't make sufficient profit to contribute.

According to the World Business Council for Sustainable Development, "*CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.*" At the very lowest level, CSR requires businesses to comply with laws and regulations. However, beyond their legal responsibilities, companies also have ethical responsibilities. This means not causing harm to society and the environment, and being accountable if harm should happen to occur. These two levels of CSR are the responsibility of all companies, without exception.

In addition to legal and ethical responsibilities, businesses have a philanthropic responsibility. While it is true that companies need to be profitable to be able to provide financial support for charitable and community programs, even companies at the start-up stage should build a sense of responsibility into their corporate culture, and can do so by providing in-kind or volunteer support to NGOs and charities through employee volunteer programs. Donations of time can be augmented by providing supplies, contacts and introductions.

### 3.2 Using CSR as a good marketing and public relations tool.

When Milton Friedman published his article "The Social Responsibility of Business Is to Increase its Profits" in the *New York Time Magazine* in 1970, he referred to CSR programs as "*hypocritical window-dressing.*" Now that decades have passed, is CSR still window-dressing? Globescan Radar Report 2012 shows that 81% of Canadians think companies use CSR to improve corporate image, not to contribute

to society (Hill+Knowlton Strategies Canada, 2012). CSR has been used as a public relations tool for decades, and this approach is broadly accepted as general business practice. Most companies, when they develop their CSR programs, first consider what the company will get from CSR, such as customer loyalty, brand approval and additional opportunities for new product promotion. Companies want and deserve appreciation for the good they do, but are self-promoting events such as luxurious award ceremonies, media-based grand openings, or use of charities in order to be associated with important causes actually effective in generating public support and respect?

### **3.3 As long as my company complies with local regulations, I'm a good corporate citizen.**

In general, developing countries tend to have lower standards on environmental protection, labour rights, public health and social benefits. All MNCs face the same dilemma, that is, which standard to follow -- local ones in the operating areas which may promise higher profit in the shorter term but also accrue higher risk of future problems, or the highest possible international ones which might cost more but will provide greater benefit to employees, local communities and the environment? The essence of the question is what do you care about more – company profits or responsible citizenship that produces benefits for society and company alike?

As a classic case, let's take a look at Union Carbide's downfall. In 1969, the USA chemical company was encouraged by the Indian government to build a pesticide plant in the city of Bhopal. Instead of abiding by employee health and safety and environmental protection laws in West Virginia, the site of another major plant, Union Carbide set up its pesticide plant in Bhopal, based on India's much weaker legal standards. In 1984, the worst corporate disaster on record happened – tons of lethal methyl isocyanine gas, a chemical used to make pesticides, leaked from storage tanks and descended in a toxic cloud over thousands of unsuspecting residents living near the plant.

Approximately 2,500 people died and hundreds of thousands more were poisoned by the chemical. In 1989, the company was charged \$470 million for the damage done. Union Carbide was eventually taken over by Dow Chemical Company. The area around the plant in Bhopal still remains highly toxic and many victims of the incident continue to suffer, inadequately cared for and insufficiently compensated. Union Carbide and its reputation were destroyed because of poor judgment and performance before, during and after the Bhopal disaster.

Now, think again: if a company complies with only the lowest legal requirements, is it a good corporate citizen? Is it a successful business strategy?

### **3.4 CSR is a political means to improve my company's relationships with government.**

In the fall of 2010, the Harmony Foundation held a training session on CSR for about thirty of China's mayors and vice mayors, where Oliver Young from the American Chamber of Commerce (AMCHAM) in China made a presentation to the mayors. He asked the mayors to guess who the foreign invested companies believe are their most important stakeholders. Most mayors guessed "customers." *"Interestingly, many companies think that government is their most important stakeholder,"* Oliver said. Hence, it is not hard to understand why companies want to use CSR as means to improve their relationship with governments.

There is nothing wrong with improving relationships with government through CSR. However, companies need to be cautious and ensure that what the government wants is in the community's best interest. For instance, local government might want to build a new hydro power plant, while the community is strongly against the idea because the construction will not only destroy wild habitat and adversely change people's lifestyles, but also it will cut the river into small lakes and reduce or eliminate access to fresh water.

Transparency and constructive working relationships with community groups are indispensable to effective CSR. Ensuring that important community needs are met is vital to achieving positive outcomes over the long term. Governments come and go but the local community endures.



# TRANSFORMATIONAL CSR

In an ideal world, CSR would function as a built-in, self-regulating mechanism whereby businesses monitor and ensure their compliance with legal and ethical standards, as well as international codes of conduct. Consequently, businesses would embrace responsibility for the impact of their activities on the environment, consumers, employees, investors, communities and anyone else within their sphere of influence. Furthermore, businesses would promote social good at least as much as their own interests by encouraging healthy, sustainable community development. To achieve that, we need to steer marketing-based **Transactional CSR** towards society-focused **Transformational CSR**.

While the term Transformational CSR enjoys wider use, we acknowledge Canadian Business for Social Responsibility (CBSR) for its role in promoting and disseminating its principles. Transformational CSR refers to a proactive strategy to inspire and infuse CSR throughout an organization and to engage stakeholders in a process of leadership and accountability.

In practical terms the distinction lies between proactive and reactive, and whether a company's level of performance can be identified as "compliance, operational, strategic or transformational" CSR. The differences among these four categories are compared in Table 1:

**Table 1: Comparison of CSR Performance**  
(Adapted from CBSR Resource<sup>3</sup>)

Performance Drivers	Compliance	Operational	Strategic	Transformational
	Commitment to CSR			
Leadership Mindset	Defensive	License to operate	Risk & opportunity	Inspirational values <sup>4</sup> based
Vision	Jobs profits taxes	Philanthropy responsible operations	Sustainable and profitable	Triple bottom line Beyond organization Long-term
Leadership Involvement	Staff driven	Functional ownership	CSR Executive Cross Functional Team	CEO Key stakeholders
Engagement Approach	Inform	Consult	Involve	Partner/Empower
Commitment	Integration of CSR			
	Minimal	By project or function	Strategic Plan	CSR metrics drive performance assessment
Action	Random programs	Targeted programs	Coordinated program	Programs central to business mission
Evaluation	Minimal	Internal audit	3 <sup>rd</sup> party assurance	Stakeholder assessment
Reporting	Legal requirements	Public relations focus	Public reporting	Transparency

## 1. Principles of Transformational CSR

### 1.1 Values-based Leadership

The UNIDO Report 2002 mentioned the three generations of CSR – practice philanthropic activities, incorporate CSR into the company’s integral business strategies, and pursue public good as an intrinsic part of business goals; it is the third generation -- public good -- which transformational CSR embodies.

Harvard professor Michael Porter’s concept of “shared value” emphasizes that “*business must reconnect company success with society progress.*” Transformational CSR requires that companies address societal and environmental issues from a shared-value perspective, achieving economic success while ensuring social progress and environmental sustainability.

### 1.2 Commitment of Top Management

Research has clearly shown that sustainability strategies are typically top-down, and that the most effective implementation occurs when senior management is clearly committed to the strategy. Therefore, one member of senior management should be the direct leader of the CSR team, reporting

<sup>3</sup> <http://www.cbsr.ca/sites/default/files/file/A%20Framework%20for%20Transformational%20CSR%20FINAL.pdf>

<sup>4</sup> The term ‘values’ means principles or standards of behavior; one’s judgment of what is important in life.

directly to the CEO and Board.

In order to initiate and implement a shared-values strategy throughout the organization, the CEO and executives should

- incorporate social and environmental impacts into company decision making at all levels,
- integrate social and environmental values into corporate culture and create incentives to encourage socially and environmentally responsible behaviour, and
- adopt a life-cycle approach in order to identify, measure and manage the social and environmental impacts of corporate activities (Epstein, 2009).

### **1.3 Focus on long-term sustainability instead of short-term marketing and profit pursuit**

Transformational CSR requires long-term strategic priorities that weave throughout the entire organization, and ensures that employees are aware of and involved with the company's overall CSR strategy. Transformational CSR balances shareholder and corporate interests with social and environmental responsibility and investment.

### **1.4 Empowerment of stakeholders**

Transformational CSR requires not only making stakeholders aware of company decisions or accomplishments, but also engaging them in decision-making and problem solving. Stakeholders should have regular opportunities to express their opinions and offer suggestions on the company's products and services, community investment and overall performance -- social and environmental as well as economic.

### **1.5 High accountability and transparency**

Besides issuing public reports on CSR, Transformational CSR asks companies to provide accountable and consistent information on an ongoing basis. Transparency is essential for not only public trust but also for accountability in business practice and management. Success and ongoing improvement require high levels of both transparency and accountability.

### **1.6 Tangible and assessable goals**

In addition to financial targets, companies should establish specific social and environmental goals with assessable indicators, such as carbon emission reduction, amount of water conserved, number of graduates from sponsored education programs, successful civil society relationships, etc. They must also create systems to ensure that they meet these goals as carefully as they would develop systems to monitor progress on financial targets.

## **2. Benefits of Transformational CSR**

A consistent and systemic CSR strategy will bring a company long-term benefits that include the following:

### **2.1 Enhanced reputation and brand loyalty**

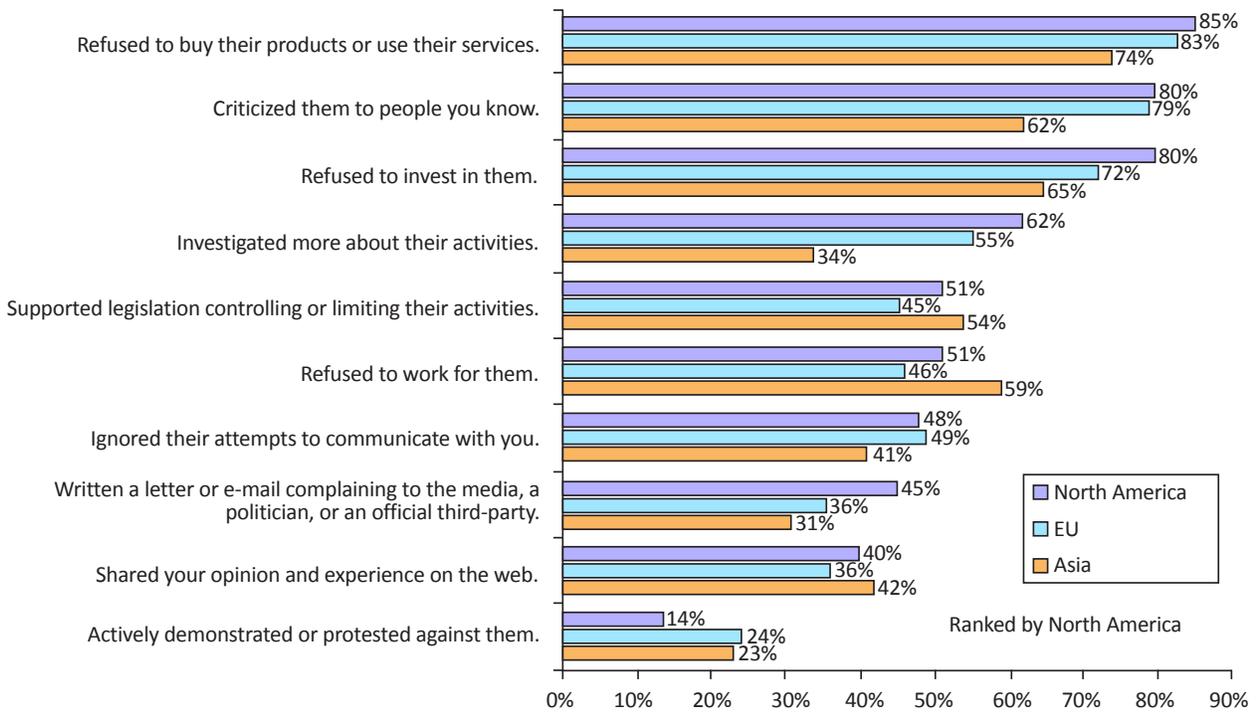
These do not arise from short-lived advertising and media campaigns, but from broad and long-lasting stakeholder loyalty and societal support due to the company's contributions to society and the

environment. An increasingly sophisticated public supports sincere investment in society and rejects “green washing” and other forms of artificial image building.

### 2.2 Privilege of getting operating approval from key stakeholders

In Edelman’s *Trust Barometer 2007* report, based on a survey of 3100 educated and prosperous people from 18 countries in Europe, North America and Asia, over 74% of people refused to buy products or services from companies they don’t trust.<sup>5</sup> Companies who voluntarily reduce negative environmental impacts through innovative products and services, who contribute to societal justice and community development and who demonstrate strong social responsibility, gain trust and appreciation from government and society as well as employees, investors and customers.

**People Take Action Against Companies They Do Not Trust**



**Chart 2:** People Take Action Against Companies They Don’t Trust (Resource: Edelman Trust Barometer 2007)

### 2.3 Attracting and retaining talent

According to a global workforce study by Towers Perrin, CSR is the third most important driver of employee engagement and retention. (TIME, May 28, 2012)

### 2.4 Healthy, educated communities with clean environments

These are the cornerstones of a stable society, a place where business can thrive for a long time. Moreover, businesses gain many benefits. They spend less on health problems, cleaning up the air, remediating degraded land and water, and they have greater access to well-trained workers and well-

<sup>5</sup> <http://www.slideshare.net/pkelly/edelman-trust-barometer-ireland>

educated professionals. A degraded society, whether it is the result of conflict, negligence or neglect, certainly is not an ideal place for business or life. In contrast, prosperous, healthy societies provide other considerable benefits to business including tax incentives, research and development funding and infrastructure.

## **2.5 Benefits from positive stakeholder relations**

Transformational CSR values the opinions of all stakeholders, not just shareholders. Through regular and efficient engagement, companies develop and maintain positive relations with staff, investors, customers, partners and society in general. A Harvard University study found that stakeholder-oriented companies showed four times the growth rate and eight times the employment growth compared to companies that are heavily or entirely shareholder focused (Kotter and Heskett, 1992).



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# CHAPTER 2

## CSR in CHINA

- BRIEF HISTORY OF CSR IN CHINA
- STATE OF CSR IN CHINA
- CSR RELATED LAWS AND GUIDELINES IN CHINA

Serious social and environmental issues and greater public participation have increasingly raised expectations that companies in China should meet global standards for CSR and contribute their fair share to education, social development and environmental protection.



## BRIEF HISTORY OF CSR IN CHINA

China has the fastest-growing economy in the world. With an average Gross Domestic Product (GDP) growth rate averaging 10 percent over the past 30 years, China surpassed Japan in 2010 and became the world's second-largest economy after the US. China is no longer the poster-child for cheap labour and low environmental standards, but has grown to be a key player in the global economy. With a population of 1.3 billion and rising domestic demand, the Chinese market attracted USD \$105.7 billion in foreign investment in 2010, 17.4% more than a year earlier (Bloomberg, 2011). China's trade surplus expanded to USD \$13.05 billion in May 2011, according to China Customs<sup>6</sup>. Exports, mainly from trade with the USA and Europe, recorded a 19.4% year-on-year growth, and imports also soared 28.4% from a year earlier (Jackson, 2011). While China remains the centre of the world's manufacturing, it has become much more.

The rise of the Chinese economy has put China front and center on the global stage of the business world. At the same time, serious social and environmental issues and greater public participation have increasingly raised expectations that companies in China should meet global standards for CSR and contribute their fair share to education, social development and environmental protection.

CSR is a relatively new, but rapidly emerging, concept in China. Along with modernization and rapid economic growth over the past 20 years, companies in China are gradually shifting away from focusing entirely on profit maximization, toward more attention on business ethics and meeting their responsibilities for addressing social and environmental issues. The principles of CSR and rising public expectations encourage companies to go beyond the minimum requirements regarding product safety, environmental protection, labour rights, and community development imposed by the government. It also requires companies to respect all stakeholders, including employees, consumers, suppliers, and local communities, and to incorporate these expectations into the company's business model (Lin, 2009).

The consequent development of CSR in China has undergone three stages: introduction, observation and development.

### 1. Introduction Stage: 1990s to 2000

Before the economic reforms of the 1990s, the Chinese "command economy" was under a strict policy of "central

<sup>6</sup> <http://finance.ifeng.com/news/special/5yuefenjingji/20110610/4133803.shtml>

planning.” Governments determined factory production schedules, and consumers purchased goods based on allocation quotas. The “open door policy” of more relaxed government control stimulated the modernization of companies. Rapid economic growth followed, but with little or no regard for social and environmental issues.

Attracted by cheap labour, low environmental standards and preferential government policies, MNCs gradually shifted their manufacturing locations, making China the “world’s factory.” Hundreds and thousands of original equipment manufacturers (OEMs) made products for their overseas customers and became part of the global supply chain, contributing to China’s stunning economic accomplishments and its social and environmental deficits.

CSR began in China during the 1990s by MNCs as part of their supply chain management. During this period, CSR requirements from MNCs mainly focused on labour conditions and supply chain management. For instance, in 1990s, Reebok imposed its labour-related codes of conduct, or “*Reebok Human Rights Production Standards*,” on its suppliers in China. However, to mitigate the negative effect of increased production costs on its profit margin, local management often sought less costly resolutions which resulted in “sweatshops” (Yu, 2008), a widespread problem.

During the process of supply management, MNCs enlisted their Chinese producers and suppliers to help meet their CSR requirements, particularly for improved labour conditions. This effort was sporadic and spotty, typically practiced by sending and occasionally updating CSR handbooks, perhaps with an occasional seminar. In most cases their commitment was weak.

Therefore, Chinese supply companies were compelled to comply with CSR norms imposed by MNCs, but without much insight, preparation or support. At this stage, CSR activities in China were simply to satisfy MNCs and the expectations of their international stakeholders. Due to the imposed introduction of CSR to China, people treated the concept quite defensively and regarded CSR as “a new type of trade barrier” or cultural imposition.

Meanwhile, a series of laws was enacted which built the foundation of CSR in China regarding labour rights, the environment and consumer well-being. These laws included Environmental Protection Law (passed in 1989), Trade Union Law (passed in 1992), Consumer Protection Law (passed in 1993) and Labour Law (passed in 1994).

## 2. Observation Stage: 2000 to 2006

After China joined the World Trade Organization (WTO) in 2001, MNCs boomed in the Chinese market, and the cost to follow international standards started to rise for Chinese companies with little perceived benefit. At the same time the Chinese government chose to be a by-stander.

But attitudes were changing in the academic world. Scholars started to debate in public whether companies should be committed to social responsibility. A study in 2001-2002 entitled *Multinational Corporate Social Responsibility and Chinese Society*<sup>7</sup> from Tsinghua University’s Research Center for

<sup>7</sup> <http://finance.ifeng.com/news/special/5yuefenjingji/20110610/4133803.shtml>

Contemporary China, a subsidiary of the Department of Sociology, drew great attention from the Chinese media and society. The researchers examined MNCs' CSR and SA8000, an auditable social certification standard for decent workplaces, across all industrial sectors. These debates and discussions built the foundation of CSR theory based on Chinese circumstances and applications.

CSR debuted on Chinese academic and political stages in 2004. The term “corporate social responsibility” first appeared in the third version of the *Company Law of China* on October 27, 2005. Article 5 requires companies to “act in good faith, accept the supervision of the government and the general public, and bear social responsibilities” (NPC, 2005). Since then, CSR in China entered fast developing phase.

### 3. Development Stage: since 2006

Now the pressure to pursue CSR came from both within and outside of China. Externally, Chinese companies going global sought legitimacy by incorporating improved sustainability practices, largely at the request of western-based MNCs and foreign governments. Chinese companies had to show that they were meeting minimal standards in the production process in order to participate in the global market (Lin, 2009). Internally, formerly state-owned enterprises needed to build their social legitimacy by more open reporting on various activities (Moon & Shen, 2010).

In 2006, sixty-six members of the Executive Committee of Foreign Investment Companies (ECFIC), a self-regulated organization for MNCs in China, issued a document entitled *Beijing Declaration on CSR*, in which they agreed to promote MNCs' CSR in China and commit to the harmonious development of business and society through self-regulation on twelve issues such as law, taxes, intellectual property, employment, employee rights, environmental stewardship, social welfare, corporate information disclosures, and corporate citizenship (Fang, 2010; Motorola, 2006). This initiative fostered a good start among MNCs in China for broadening CSR practice beyond supply chain management.

In 2007, more than 1400 MNCs in China published *A Written Proposal for Fulfilling Social Responsibilities*, advocating compliance with regulations and laws, high product and service quality, employee protection, harmonious employment relationships, biological environment protection and energy conservation (Fang, 2010; P&G, 2007).

Many forums, seminars and associations focusing on CSR occurred in China during this period (Fang, 2010). As a result, many CSR awards were established, with ceremonies held one after another. While

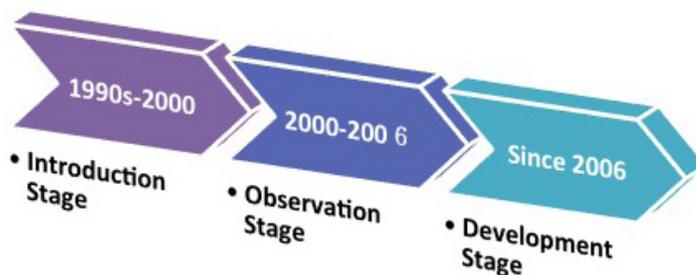


Chart 3: CSR Development in China

some remained skeptical, the general public's attitude towards CSR gradually became more positive. Companies were enthusiastic about using this new public relations tool to promote their images and brands. It was considered fashionable to be linked with CSR, even if the practical results for society were modest at best.



# STATE of CSR IN CHINA

## 1. More Related Laws and Regulations

On May 12, 2008, a deadly earthquake hit China's Sichuan province, killing about 70,000 people and leaving millions homeless. This natural disaster triggered the rapid expansion and development of CSR in China. After the tragedy, Chinese society was extremely disappointed by the small amount that MNCs donated, compared with the philanthropic behavior of Chinese companies, and called them "iron roosters," a symbol of miserly ways. Boycotts against these companies were spread via the internet and put many MNCs into public relations crises (Fang, 2010). The iron rooster event and the reflection of cultural differences on CSR motivated the Chinese government to consider regulating CSR practice. *(Note: Chapter III examines the different philanthropic approaches of Chinese companies and MNCs generally, and specific to the Sichuan earthquake, to illuminate where western companies encounter problems in China and how they can improve the effectiveness of their donations and CSR strategies.)*

In 2008, the state-owned Assets Supervision and Administration Commission of the State Council (SASAC) announced its *Corporate Social Responsibility Guidelines for Central Level State-Owned Enterprises* to encourage state-owned enterprises (SOE) to participate in CSR reporting. In September 2008, the Ministry of Commerce issued *CSR Guideline for Foreign Investment Companies (draft)*, which was intended to set the bottom line for MNCs' CSR practice in China. It included, but was not limited to, 26 Chinese laws and regulations and 19 international conventions (Fang, 2010). In addition, two major stock exchanges, Shanghai and Shenzhen, also published their own reporting requirements starting in 2006.

## 2. Maturing Chinese companies

Government initiatives, media and public exposure convinced the Chinese people of the value of CSR. As customer and investor awareness grew, people started to embrace the concept of CSR and they increasingly demanded that companies be socially and environmentally responsible. Subsequently, the question switched from what is CSR to how to ensure that companies fulfill their responsibilities. Many companies submitted their answers by following international standards.

By 2009, over 55,000 Chinese companies were certified under the ISO14001 environmental

management system standard, which exceeded certifications in the rest of the top ten countries combined.

Meanwhile, different global standards and indicators, such as the United Nations Global Compact and Global Reporting Initiatives (GRI), were introduced to China. According to UN Global Compact's website, 272 Chinese companies have joined the UN Global Compact since 2000, which is more than the United Kingdom, South Korea or Canada, and the number of participants is growing every month (UN, 2012a).

### 3. Growth in CSR Reporting

Especially after 2008 when the mandatory reporting regulation took effect, a huge jump was observed in the number of CSR reports that were released, and the number continues to increase yearly.

Since the first CSR report, by the State Grid Corporation of China, more and more companies have jumped on the bandwagon of CSR reporting. SynTao's recently published *Research on CSR Reporting in China 2011* shows that the number of CSR reports published in China increased from 23 in 2006 to 1001 in 2011. Over 60% of the CSR reports were from SOEs while 182 out of 1001 were from foreign-invested or Sino-foreign joint venture enterprises. While the number of CSR reports from all industries increased, the financial industry ranked highest with over 100% growth from 82 in 2010 to 172 in 2011 (SynTao, 2011).

Although the number of CSR reports is rising, on average, the quality of the CSR reports issued by Chinese companies is not yet satisfactory and there is huge variation across companies, quantitatively and qualitatively. Within the near future, growing international ambitions are likely to motivate Chinese companies to improve CSR reporting and practices even further. Increasingly, therefore, companies are realizing that taking CSR reporting seriously, rather than as a mere public relations exercise, helps them to manage CSR activities and outcomes much more effectively.

### 4. Trends of CSR development in China

CSR in China is shifting to achieve a better fit with Chinese national systems and culture, and domestic pressure is rising. Chinese citizens have been disappointed by the poor corporate practices of MNCs and are demanding improvement. Chinese companies who want to be more competitive on the global stage increasingly follow international CSR standards. Chinese governments also seek improved performance and are using CSR to address social and environmental issues during the current economic and social reform, and to promote "scientific development" within a "harmonious society" (Zadek, Forstater & Yu, 2012).

On the road towards better CSR practice, NGOs are playing a stronger role in social and environmental practices. According to the Chinese Ministry of Civil Affairs, as of 2008, China had around 400,000 registered NGOs and probably close to 3 million, based on unofficial

estimates. Socially focused NGOs provide direct services to impoverished rural areas and urban communities, and to people with disabilities. Environmental NGOs are important in raising public awareness and participation and improving conditions. They offer invaluable input to environmental decision-making and they help business, government and community groups work together on practical projects. MNCs, local government and NGOs have started to work together on moving CSR beyond good intentions to social and environmental progress (Zadek, Forstater & Yu, 2012). However, one must be careful to distinguish between legitimate NGOs serving the public interest and those motivated by other goals and/or serving political purposes. *(Note: Chapter III addresses some of the complexity around NGOs and their activities with regards to CSR.)*



# CSR RELATED LAWS AND GUIDELINES IN CHINA

## 1. Company Law of PRC

The official introduction of CSR in China can be traced back to the third version of the *Company Law* revised in 2005, which officially took effect January 1, 2006. Article 5 of the *Company Law* states, “*In the course of doing business, a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to the government and the public supervision, and undertake social responsibility*” (NPC, 2005).

The 2006 *Company Law* laid a good foundation for CSR practice in China. Although encouraging CSR practice is not the major reason for the *Company Law* revision, CSR can be found implicitly in other relevant laws such as the *Environmental Protection Law* (1989), *Consumer Protection Law* (1994), *Labour Law* (1995), *Trade Union Law* (2001) and *Labour Contract Law* (2008).

## 2. SASAC Guidelines

The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council supervises and manages the state-owned assets of enterprises under the supervision of the Central Government, excluding financial enterprises. In 2008, SASAC announced the *Corporate Social Responsibility Guidelines for Central Level State-Owned Enterprises* and explicitly requested the wide practice of CSR (SASAC, 2008).

Since most large companies in China are state-owned, the SASAC guideline revealed the Chinese central government’s official position toward CSR. It conveyed its message in four parts: “*CSR is a concrete measure of promoting social harmony; implementation of CSR is important to meet public expectations; CSR is the unavoidable option for sustainable development; and CSR is a necessity for the SOEs to participate in the international market and society*” (Lin, 2009; SASAC, 2008).

## 3. SEPA Guideline for Green Security

In February 2008, China’s State Environmental Protection Administration (SEPA) issued the *Guideline*

for *Green Security*. Thirteen categories of environmentally sensitive industries were put under strict supervision. These industries are thermal power, metallurgy, chemical industry, petrochemicals, coal, building materials, papermaking, beverage manufacturing, pharmaceuticals, fermentation, textile, fur and mining. Any companies fitting into these categories must pass a special inspection by the local environmental protection administration before applying for an initial public offering (IPO). SEPA requires listed companies in environmentally sensitive industries to report environmental information at the companies' discretion on a regular basis, but mandatory disclosure is required when "important" environmental events happen (Lin, 2009; SEPA, 2008). This was an important step forward despite the possible risk of in political interference in local environmental protection administration.

#### 4. CBA CSR Guidelines

On January 12, 2009, the China Banking Association (CBA), a self-regulatory organization of all banks in China issued *Corporate Social Responsibility Guidelines for Financial Institutions in China*. This guideline recommended that CSR reports should include economic responsibility, social responsibility, and environmental responsibility (CBA, 2009).

#### 5. CSRC Announcement [2009]

In December 2009, the China Securities Regulatory Commission (CSRC), counterpart of the Securities and Exchange Committee (SEC) in the USA, released a document -- Announcement [2009] No.34: *Guidance Announcement on the proper preparation of 2009 Listed Company Annual Reports and Related Tasks*, which encouraged Chinese listed companies to disclose annual CSR reports together with annual reports in 2010 (CSRC, 2009). Similarly, CSRC's Announcement [2010] No.37: *Guidance Announcement on the proper preparation of 2010 Listed Company Annual Reports and Related Tasks*, released in December 2010, advocated enhancement of CSR initiatives, and disclosure of environmental information in accordance with the law (CSRC, 2010).

#### 6. Stock Exchange Guidelines

##### Shenzhen Stock Exchange (SZSE) CSR Guideline

In September 2006, the Shenzhen Stock Exchange (SZSE) posted its CSR guidelines for listed companies covering stockholder and creditor protection, employee protection, supplier, client and consumer protection, environmental protection and sustainable development, public relations and social welfare (SZSE, 2006). *"The Guide is promulgated on the Company Law and the Securities Law with purposes of achieving scientific development, building a harmonious society, advancing toward economic and socially sustainable development, and promoting corporate social responsibility"* (Lin, 2009; SZSE, 2006).

Disclosure was initially voluntary, but the Shenzhen Stock Exchange changed its policy in 2008 and required mandatory disclosure for all companies in the SZSE 100 index. However, listed companies that are not included in the SZSE 100 index can still choose whether or not to submit their CSR reports to the

Stock Exchange. After collecting the CSR reports, the Shenzhen Stock Exchange posts them on its official website under the “listed company information disclosure” section.

### Shanghai Stock Exchange (SSE) CSR Guideline

In May 2008, the Shanghai Stock Exchange (SSE) released its own *Guide on Environmental Information Disclosure for Companies Listed on the Shanghai Stock Exchange* and *Notice on Strengthening Social Responsibility of Listed Companies*, requiring listed companies briefly to disclose publicly any information related to society, the environment and the economy, according to their own characteristics (SSE, 2008).

The Shanghai Stock Exchange requires mandatory CSR report submission from three types of companies: companies in the financial industry such as banks and insurance companies; companies who are components of SSE’s Corporate Governance Index;<sup>8</sup> and companies cross-listed on overseas markets, e.g. Hong Kong, NYSE, NASDAQ, and London etc. If a company does not fit into any of the three types, CSR disclosure is voluntary. Similarly, the Shanghai Stock Exchange collects the CSR reports and posts them online.

#### List of CSR Related Laws in China

NAME OF THE LAW	YEAR OF PUBLISHING/REVISING
Environmental Protection Law	1989
Trade Union Law	1992
Product Quality Law	1993
Against Unfair Competition Law	1993
Consumer Protection Law	1993
Labour Law	1994
Environmental Noise Pollution Prevention Law	1996
Welfare Donation Law	1999
Marine Environmental Protection Law	1999
Air Pollution Prevention Law	2000
Foreign Equity Joint Venture Law	2001
Occupational Disease Prevention Law	2001
Production Safety Law	2002
Women’s Rights and Interests Protection Law	2005
Renewable Energy Law	2005
Company Law	2005
Enterprise Income Tax Law	2007
Labour Contract law	2007
Energy Conservation Law	2007
Food Safety Law	2009
Social Insurance Law	2010

<sup>8</sup> The SSE Corporate Governance Index includes companies with best corporate governance performance listed on the Shanghai Stock Exchange. This index is adjusted every July, and it has 276 companies following the July 2012 adjustment.

### List of CSR-Related Regulations & Guidelines in China

REGULATIONS	YEAR OF PUBLISHING
• Prohibiting the Use of Child Labour Regulation	2002
• Minimum Wage Regulation (Ministry of Labour and Social Security)	2004
• State Council's Administrative Regulations on Foundations	2004
<b>GUIDELINES</b>	
• Social Responsibility Instructions to Listed Companies (SZSE)	2006
• Guidelines on Listed Companies' Environmental Information Disclosure (SSE)	2008
• CSR Guidelines for Central Level State-Owned Enterprises	2008
• Guideline on Enhancing the Supervision and Management of Environmental Protection for Listed Companies (China's SEPA)	2008
• CSR Guidelines for Financial Institutions in China (CBA)	2009
• SASAC Guideline	2010
• CASS CSR Guideline 2.0	2012

# FRAMEWORKS FOR CSR REPORTING IN CHINA

A number of reporting guidelines serve as frameworks for CSR reporting in China. On the international level, the most notable are the United Nation Global Compact and the Global Reporting Initiatives (GRI). On the domestic level the most important one is CASS-CSR 2.0 developed by the Research Center for CSR at the Chinese Academy of Social Sciences (CASS).

## 1. UN Global Compact

Launched in July 2000, the UN Global Compact is the world's largest voluntary Corporate Citizenship initiative with over 8000 participants in more than 140 countries. The core of the UN Global Compact is a set of ten principles that cover issues including human rights, labour standards, the environment and anti-corruption. There are two primary goals articulated in the UN Global Compact: to mainstream its ten principles in business activities around the world and to catalyze actions in support of broader UN goals, including the Millennium Development Goals. It is not a standard for measuring a corporation's performance by using predefined indicators; rather, it is a voluntary, principle-based initiative. Companies that join the UN Global Compact are expected to implement, disclose, and promote the ten universal principles. However, participating companies are not required to report on all ten principles (UN, 2012b), and they have great flexibility in reporting on their progress as long as they communicate openly about their progress. At this time, 272 companies from China participate in the UN Global Compact, with the earliest participation occurring in 2000 (UN, 2012a).

The UN Global Compact has its critics. Although it attracts the participation of many companies, the ten principles arguably are too broad and vague in practice (Knudsen, 2011). The registration process is too easy and some companies have signed the UN Global Compact without practical preparations (Therien & Pouliot, 2006). Furthermore, the UN Global Compact is not a regulatory instrument but *"a voluntary initiative that relies on public accountability, transparency and disclosure to complement regulation"* and the principles are without binding mechanisms to hold corporations accountable. Critics criticize it as *"blue washing"*<sup>9</sup> with UN approval (Knudsen, 2011; UN, 2011). Finally, the UN Global Compact doesn't provide clear performance measures (Knudsen, 2011). To make the UN Global Compact more useful in practice and more credible, binding mechanisms and transparent reporting standards are necessary.

<sup>9</sup> Blue-washing means covering inadequate performance with easily obtained certification.

## UN Global Compact Ten Principles

### HUMAN RIGHTS

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Make sure that they are not complicit in human rights abuses.

### LABOUR STANDARDS

3. Businesses should uphold freedom of association and effective recognition of the right to collective bargaining.
4. The elimination of all forms of forced and compulsory labour.
5. The effective abolition of child labour.
6. The elimination of discrimination in respect of employment and occupation.

### ENVIRONMENT

7. Businesses are asked to support a precautionary approach to environmental challenges.
8. Undertake initiatives to promote greater environmental responsibility.
9. Encourage the development and diffusion of environmentally friendly technologies.

### ANTI-CORRUPTION

10. Businesses should work against corruption in all its forms including extortion and bribery.

## 2. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) guideline seems to overcome some if not all of the shortcomings of the UN Global Compact. Founded in 1997, GRI is a non-profit organization that works towards a sustainable global economy by providing sustainability reporting guidance. GRI has developed a comprehensive sustainability-reporting framework, which has become a widely accepted global standard of best practice. The third version of the GRI guideline (G3) was launched in 2006 with more than 3,000 experts participating in its development. The current 3.1 version of the GRI guideline, its sustainability reporting framework, was finished in March 2011. It expands the protocols for reporting gender, community and human rights-related performance (GRI, 2012a).

GRI guidelines provide a detailed list of what should appear in a sustainability report. It includes Strategy and Profile, Economic, Environmental and Social Performance, which consists of Labour Practices and Decent Work, Human Rights, Society and Product Responsibility. One inherent problem is that companies using GRI reporting framework are free to choose what they want to disclose. Depending on the level of public disclosure, they self-declare the application level from C (lowest) to A (highest). A “plus” (+) is available at each level if external verification was utilized for the report (GRI, 2011). GRI is planning to cancel the self-evaluation practice in the fourth version, out of concern for accountability.

In 2012, 463 companies in mainland China and Hong Kong followed the GRI guidelines, with the earliest starting in 2001, and the number of companies has increased every year (GRI, 2012b). The average quality of CSR reports from companies following GRI guideline is higher than those who do not; they meet more detailed

reporting requirements on social, economic and environmental responsibilities. Companies in financial and environmentally sensitive industries tend to be more interested in reporting under the GRI framework. Chinese companies are somewhat disadvantaged because it is more difficult for them to adopt international guidelines such as UN Global Compact and GRI guidelines without cultural adaption. For example, the first two principles of the UN Global Compact are related to human rights, which are approached differently in China, compared to western countries. Another deterrent in China is that following GRI guidelines is considered a demanding task that is seen as a luxury for most Chinese companies. With very little incentive, the companies are less likely to expend the resources and develop the knowledge and expertise to understand GRI guidelines and adopt them for their organizations. Without pressure from government, the public and other stakeholders, very few companies are willing to follow GRI voluntarily. However, this may soon change because of the external expectations towards Chinese companies when they operate overseas, as well as rising domestic expectations.

The domestic framework for CSR in China came into existence to help compensate for the difficulty of applying international guidelines, and later, to enable Chinese companies to be listed on international stock exchanges.

### 3. CASS-CSR Guideline

Although the Shanghai and Shenzhen Stock Exchange guidelines built the foundation of CSR reporting and specified basic contents for China, they are still too general in practice and only focused on listed companies. In addition, many CSR reports from Chinese companies are too “sketchy” or unclear in terms of theme and framework, and somewhat random in terms of content, due to lack of practical CSR reporting guidelines. Therefore, the Research Center for CSR at the Chinese Academy of Social Sciences (CASS) published its CASS-CSR 1.0 guideline in 2009 to help state-owned Chinese companies more effectively structure their CSR reporting. Since then, CASS has continued to improve the CASS-CSR guidelines to meet both international standards and local needs, and it published CASS-CSR 2.0 in March 2011. By the end of 2011, over 60 companies stated that they followed CASS-CSR 2.0 in their CSR reports, including SOEs, domestic private companies and some foreign invested companies.<sup>10</sup>

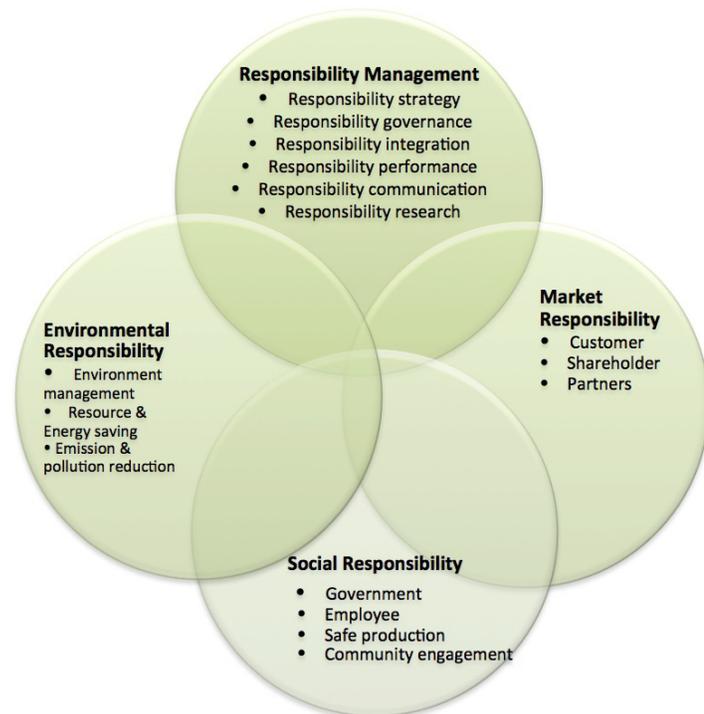


Chart 4: Four-in-One Model (CASS-CSR 2.0)

A couple of highlights from CASS-CSR 2.0 are worthy of attention here. One is the “Four-in-One” model,

<sup>10</sup> <http://news.qq.com/a/20120406/000887.htm>

which is based on the “triple bottom line” and “stakeholder” concepts (See *Chart 4*). The “Four-in-One” model integrates responsibility management and social, environment and economic responsibility into one, with emphasis on the importance of responsibility management, which includes responsibility strategy, responsibility governance, responsibility integration, responsibility performance, responsibility communication and responsibility research. CASS-CSR 2.0 includes 21 responsibility management indicators covering CSR strategy, governance, integration, performance, communication and research. The other highlight is that CASS-CSR2.0 fully considers the characteristics of different industries and provides supplementary indicators for 46 industries (CASS-CSR 2.0).

Now, CASS is undergoing revision of CASS-CSR 2.0 and will publish CASS-CSR 3.0 in the spring of 2013. The advantage of CASS leadership on CSR reporting in China is that the organization is widely respected as a non-profit academic agency motivated by public interest, not by commercial advantage.



# CSR STANDARDS IN CHINA

## 1. Social Accountability 8000 (SA8000)

In 1997, Social Accountability International (SAI), a NGO based in New York, launched SA8000, a voluntary standard for workplaces, based on International Labour Organization (ILO) and UN conventions.

It has nine aspects:

child labour

health and safety

discrimination

working hours

forced labour

freedom of association and right to collective bargaining

disciplinary practices

remuneration

management systems

SA8000 was introduced to China at the end of 2003, and it had a significant impact in the very early stages of China's CSR development. SA8000 was first considered a trade barrier imposed by MNCs; therefore, it caused great repercussions. In fact, in 2004, the Certification and Accreditation Administration (CAA) of PRC said that SA8000 certification was not suitable in China.<sup>11</sup>

However, the discussion over SA8000 among academics and other influential sectors in the society not only introduced the international CSR initiative into China, but also taught Chinese entrepreneurs that CSR had become an important component for business sustainable development. SA8000 is also became a very important reference for some of China's CSR standards and guidelines, such as CSC 9000T.

By the third quarter of 2011, 410 companies in China had earned the SA8000 accreditation (Han, 2011).

## 2. ISO26000

ISO26000 is an internationally accepted voluntary guidance for social responsibility, but not a certification or regulation. Companies can choose the parts they believe are most reasonable and effective to follow. ISO26000 addresses seven core themes of social responsibility:

<sup>11</sup> <http://finance.sina.com.cn/j/20041101/12081122952.shtml>

- Organization governance
- Labour practices
- Fair operating practices
- Community involvement and development.
- Human rights
- The environment
- Consumer issues

ISO26000 was published in Chinese near the end of 2011. According to a subsequent *2011 Survey of Post-Publication Activities Related to ISO26000*, more and more Chinese companies have come to know and accept ISO26000, and the Chinese government is planning to develop nationally suitable social responsibility standards, including a “mother” standard based on ISO26000 and a series of topic-specific standards, such as evaluation, social responsibility reporting, and industry implementation guidance.<sup>12</sup>

### 3. China Social Compliance 9000 for Textile and Apparel Industry (CSC9000T)

CSC9000T is the **first industrial CSR standard in China**. SAI, the organization that launched SA8000, partnered with the China National Textile and Apparel Council (CNTAC) to improve working conditions and promote social dialogue in workplaces of the apparel/textile sector in and beyond China. In 2005, CNTAC formulated CSC9000T, based upon Chinese laws and regulations and relevant international conventions, as well as aligning with Chinese cultural patterns; in 2008, CNTAC updated CSC9000T.

#### CSC 9000T covers twelve aspects:

Management Systems	Discrimination	Working Hours
Trade Unions & Collective Bargaining	Child Labour & Juvenile Workers	Fair Competition
Forced or Compulsory Labour	Employment Contracts	Wages and Welfare
Harassment and Abuse	Occupational Health and Safety	Environmental Protection

In June 2008, CNTAC released the *China Sustainability Reporting Guidelines for Apparel and Textile Enterprises (CSR-GATEs)*, China’s first sustainability reporting guidance system to guide the social reporting practice of textile companies.<sup>13</sup>

### 4. Call for a Chinese National CSR Standard

With many CSR frameworks/standards developed by associations, industry bodies and government, there is an increasing demand for Chinese national CSR standards that will be recognized internationally.

With the Chinese government and industry increasingly engaged in international standard setting, Chinese CSR standards are converging with international ones. “*China’s bottom line in negotiating this convergence with international CSR standards is to avoid the imposition of requirements that conflict with Chinese legal and public policy priorities*” (Zadek Forstater & Yu, 2012).

<sup>12</sup> <http://media.iso26000bloggen.se/2011/12/N07-PPO-SAG-ISO-26000-Survey-Presentation1.pdf>

<sup>13</sup> <http://www.planet-textiles.com/cntac.pdf>

The Chinese Certification and Accreditation Agency (CNCA), under the Standard Administration of China (SAC), is working to investigate the implementation of ISO26000 and other international standards and is currently developing China's national CSR certification system. The work started in November 2010 and remains at the preliminary stage. Some MNCs were invited to join the working team, such as GE and Siemens. About 50,000 companies now are under pilot practice of the national CSR standards. Practitioners in China believe that the national CSR standards may be launched as early as 2013.

It is believed that the initial national CSR standards will be a *“consolidation of existing rules and good practices designed as a bulwark against trade barriers, rather than as a public policy tool for advancing specific national priorities. New demands for business to contribute to China's development are likely to continue to be advanced through a broader range of measures on issues, such as labor to energy efficiency, rather than through a single national CSR standard”* (Zadek, Forstater & Yu, 2012).

# OVERALL PERFORMANCE OF MNCS' CSR IN CHINA

## 1. History of the Development of MNCs' CSR in China

While the history of modern international companies operating in China can be traced back to 1978, when Panasonic set up its Beijing branch, CSR practice didn't noticeably start until the 1990s.

### 1.1 Introducing CSR to China

During the late 1990s, due to protests around the world about sweatshops, some large MNCs started to apply social and environmental standards to their suppliers in China. The campaign for factory audits gained wide attention and encouraged the development of CSR in China.

### 1.2 Leading CSR in China

From 2000 to 2006, CSR of MNCs developed rapidly. Through supply-chain management, especially the implementation of SA 8000 and other social responsibility standards, MNCs applied specific requirements on labour issues to their Chinese suppliers. Moreover, MNCs began to share their CSR understanding and experience with their Chinese partners. During this stage, MNCs generally were regarded as positive business entities by the public with respect to CSR performance, especially because Chinese companies had not yet engaged CSR as a working concept.

### 1.3 Facing increasing pressure on CSR

Since 2006, CSR has been in a fast-growing stage in China. As public pressure has intensified, more and more Chinese companies have begun to realize the significance of CSR. The rate at which Chinese companies released their CSR reports increased by 311% in 2008, reaching a total number of 1001 in 2011 (SynTao, 2011). Moreover, the solid CSR practices of some Chinese companies have received wide acceptance. In fact, in 2006, three Chinese domestic enterprises, China National Petroleum Corporation, China Petrochemical Corporation, and National Grid, edged themselves into the world top 100 CSR Rankings list, issued by Fortune magazine<sup>14</sup>.

Comparatively, the advantage for MNCs gradually faded away. Some leading brands, including KFC, Shell, Wal-Mart and Unilever, were blamed for applying lower standards to customer service in China. Furthermore, along with the ascendant trend of exposed negative environmental and labour incidents

<sup>14</sup> [http://www.chinadaily.com.cn/hqph/2006-11/14/content\\_732705.htm](http://www.chinadaily.com.cn/hqph/2006-11/14/content_732705.htm)

related to MNCs, suspicions and mistrust arose over their double standard in China and other countries with regard to all CSR issues.

## 2. Current State of MNCs' CSR

More recently, some MNCs have paid greater attention to environment, health and safety (EHS) issues, making improvements through their supply chains and improving CSR training; furthermore, some MNCs have established solid philanthropic programs involving environmental protection, community improvement, education enhancement and agricultural development.

### 2.1 Environment, Health and Safety (EHS)

According to the *Labour Law of the People's Republic of China*, Environment, Health and Safety (EHS) are expected to be top priorities for companies. MNCs have contributed to the development of public awareness about EHS and have helped to nurture more local CSR talent. Some even publish special EHS reports to disclose issues, such as employee exposure to poisonous materials, and the frequency of significant incidents or major accidents.

#### Case 1: GE and EHS Academy in China

GE is working together with other companies that include Wal-Mart, Honeywell, Citibank and SABIC Innovative Plastics to support a new EHS Academy in China's Guangdong province. The Institute has been developed in cooperation with the Institute for Sustainable Communities (ISC) and Lingnan College of Zhongshan University. The program draws on the expertise of EHS managers and auditors from GE and other companies to provide high-quality training to new groups of Chinese EHS managers on a regular basis. This training is open not only to GE suppliers but also to more than 70 companies on a non-profit basis.

### 2.2 Supply Chain Management

A code of conduct is a set of rules outlining the responsibilities of companies. The OECD defines it as "*commitments voluntarily made by companies, which put forth standards and principles for the conduct of business activities in the marketplace*" (OECD, 2001).<sup>15</sup> The early 1990s witnessed a series of media exposés of sweatshop conditions in the garment and footwear industries. In response, concerned MNCs began to adopt codes of conduct to reassure stakeholders that their supply factories were protecting workers' rights.

In China, MNCs typically compel suppliers to adopt and implement the MNCs' codes of conduct and social responsibility standards like SA8000; otherwise, they deprive them of the opportunity to continue as suppliers. Current codes of conduct usually cover several social responsibility issues -- social security, worker treatment, labour rights and labour standards.

<sup>15</sup> OECD Survey 2001 op cit at 8.

**Table 2: MNCs Implementing Codes of Conduct in China**

Adidas-Salomon	Department 56	Little Woods	Puma
Avon	Debenhams	Levis Strauss	Otto-Versand
And I	DKNY	Li & Fund	Redwing
Asda	Eckerd	Marks &Spencer	Reebok
Auchan	GAP	Mattel	Roots
B&Q	GE	McDonald	Safeway
Body Shop	GH Warner	Monoprix	Sears
BT	Hasbro	Nike	Siplee
CDC	Hallmark	New Balance	Tomy
Carrefour	H & M	New Look	Toys "R" Us
Cutter & Buck	Iceland	NEXT	Tiger
Costco	K Swiss	Pentland	Timberland
C & A	K Mart	Polo	Target
Disney	Kingfisher	Philips Van Heusen	Wal-Mart
Dayton	Kohl	Promodes	Woolworths

*Note: Extracted from "Multinational Corporate Social Responsibility and the Chinese Society" (Liu 2003)*

### Major social responsibility standards in China

#### SA8000

Based on internationally recognized human rights principles, SA8000 provides transparent, measurable, verifiable requirements for certifying performance in nine essential areas: child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary practices, working hours, remuneration, and management systems.

#### ICTI

ICTI, the International Council of Toys Industry, developed a single, efficient and coherent ethical standard, including the Code of Business Practices and an auditing protocol, to be adopted by factories. Upon successful completion of an ICTI certification audit, a factory is awarded an ICTI certificate as proof of compliance with the Code's provisions.

### 2.3 Conducting CSR Training

Most MNCs that understand the growing importance of CSR and Chinese expectations increasingly emphasize CSR training in China, which typically includes three major aspects:

- upgrading labour skills as a whole,
- developing CSR awareness and building CSR capabilities of Chinese staff, and
- providing specific CSR information and training to major suppliers.

While the emphasis on skills development too narrowly defines CSR, it does demonstrate that CSR practice is growing, and as a result, MNCs in China are increasingly providing CSR training.

Perhaps for efficiency, many manufacturing enterprises centralize their training sessions in the two major manufacturing centers, Yangtze River Delta Area and Pearl River Delta Area. At the same time, other MNCs have improved efforts to increase CSR awareness and ability in their China branches and subsidiaries.

### 2.4 Philanthropic Programs

Devotion to charity has proven to influence customers' purchasing behaviour. Based on a survey conducted in 2006 by AC Nielsen, more than 50% of customers would choose the services and products from enterprises that actively participate in charity.<sup>16</sup> Leading MNCs have noticed, and have been more actively participating in charity, with the most notable efforts directed to support community improvement, poverty alleviation, environmental protection, and education enhancement as well as recovery from natural calamities.

Despite substantial growth in GDP, many people in China still struggle with poverty, unhealthy environments and the lack of educational opportunities. These challenges hinder the improvement of conditions of life for many Chinese people.

Certainly there is enough room and urgent need for more philanthropic CSR programs. Moreover, positive philanthropic initiatives earn companies good reputations with local and senior governments as well as the general public.

While government policies and practices must lead the effort to provide communities with good education and employment opportunities and a healthy environment, companies who benefit from the Chinese market are reasonably expected to invest in social development and environmental protection. More than simply the right thing to do, these initiatives nurture the healthy, prosperous, educated communities that are the best places to do business over the long term.

<sup>16</sup> <http://www.allroadsleadtochina.com/2006/12/08/csr-ac-nielsen-finds-good-is-gold-in-china>

**Table 3: Cases of Philanthropic Programs**

Area	Cases
<b>Community Improvement</b>	The residents in the Mt. Everest area suffer from inhospitable climate and geographic conditions. DuPont China provides them with a group of innovative energy-saving buildings, aimed at improving their living conditions, which has proven to be constructive in improving the welfare of local residents.
<b>Poverty Alleviation</b>	Amway has been sponsoring the ‘New Year Charity Concert’ during the spring festival since 2004, aimed at raising funds for poor and handicapped children and other vulnerable groups. By 2011, 64 concerts had been held with a total audience of about 69,000 and donations of more than 700 million RMB. <sup>17</sup>
<b>Environment Protection</b>	Wal-Mart launched a series of science popularization activities in 2010. All 175 stores in 90 cities across China participated, aiming at creating a better understanding of the impacts of global warming on people's daily lives among the communities, and promoting low-carbon lifestyles.
<b>Education Enhancement</b>	In June 2010, Mercedes Benz and China Youth Development Foundation jointly established the ‘Future Star Fund’ with initial funding of 30 million RMB, for the purpose of offering musical education for students in the Hope School system. <sup>18</sup>
<b>Post-Disaster Reconstruction</b>	To improve the nutrition and health conditions of children in the earthquake-stricken areas of western China after May 2008, the China Foundation for Poverty Alleviation, the World Food Programme and Yum (China) initiated a “One Yuan to show you care” program. Through Yum’s KFC, Pizza Hut Yum & ZJS and East Dawning restaurant across China, the “One Yuan” program collected 3.84 million RMB in 2008 and a total of 400 million RMB through the end of 2011. Over 15,000 children in Sichuan and over 22,200 children in Yunnan benefitted from nutritious meals with milk and eggs, and kitchen equipment. <sup>19</sup>

In summary, the development of CSR for MNCs in China has experienced its ups and downs. With abundant experience in conducting CSR internationally, MNCs provided valuable assistance in promoting CSR in the Chinese business world, particularly related to internal operations. However, in the process of transplanting and implementing their global experience to China, many issues and challenges emerged. Poor understanding of local culture and expectations led to attempts to force-fit western practices. The far-too-frequent emphasis on CSR as a public relations tool or to meet legal obligations led to confusion and disappointment. Scholars pointed out that there were no efficient incentives for the MNCs to strive to be the best in the field, and others argued that local companies, in fact, can provide the impetus for the multinational ones to act proactively in CSR (World Economy Research, 2008).

<sup>17</sup> <http://www.amwaycm.com/article.php?id=26>

<sup>18</sup> <http://news.cntv.cn/20120503/118023.shtml>

<sup>19</sup> <http://www1.thmz.com/2012/oneyuan>



# ISSUES/CHALLENGES FOR MNCs' SUCCESSFUL CSR IN CHINA

## 1. Internal Challenges

### 1.1 Conflicts between the head office and local branches

Often a MNC's headquarters determine its overall CSR strategy, if they have one, and the branches follow the strategy with very limited flexibility. One problem is that headquarters doesn't have the level of understanding of local needs and the social context that the branches do. Therefore it is not rare that when a local issue arises, a timely response is unlikely because each branch must report to headquarters and wait for approval before proceeding.

One prominent example is that some MNCs were criticized as "iron roosters" after the 2008 earthquake in Sichuan. It was not only because the amount of donation from those MNCs was relatively small compared to their revenues and to donations from Chinese companies, but also because those MNCs reacted too slowly. The representative from one MNC's Social Responsibility Department commented that Chinese branches were required to report to headquarters for all donations; the procedure was tedious and slow, as the branch had to wait for the board's decision.<sup>20</sup>

### 1.2 Lack of CSR talent

Since CSR is still relatively new to China, the available pool of talent and experience is small. Moreover, the pervasive western emphasis on public relations and marketing has meant that overwhelmingly CSR staffs have public relations and marketing backgrounds. This, in turn, has perpetuated the emphasis on image over substance. As Bill Valentino, former General Manager of Bayer's Corporate Communications for China commented at an interview with Harmony on Oct. 29, 2012, *"It is difficult to recruit and hire talent as the candidates usually lack both knowledge and experience of CSR."*

### 1.3 Lack of senior executive involvement in CSR

In many MNCs, CSR staff members are located in public relations or marketing and isolated from other departments. They also tend to be low in rank and influence. As a result, other departments typically regard the CSR department as unimportant beyond building and repairing the corporate image.

<sup>20</sup> <http://www.gongyishibao.com/News/201105/134750.aspx>

### 1.4 Lack of employee engagement

This happens when employees are unaware of or are uncertain about the company's CSR initiatives, or they have not been involved in the decision-making process and are left to believe that CSR is low priority beyond public relations and marketing.

## 2. The challenges of Strategic CSR

Companies may encounter the following challenges when revitalizing their CSR programs:

### 2.1 Challenges in developing strategic CSR, rather than “precautionary” CSR

Nobuo Tateisi, the Chairman of the Council for Better Corporate Citizenship (CBCC) and the Executive Advisor for OMRON Corporation, observed that CSR initiatives by Japanese companies in China mostly *“focus on legal and regulatory compliance, risk management and philanthropic activities, which are often precautionary measures to prevent misconduct rather than an attempt to increase corporate value”* through strategic CSR (Nobuo, 2006). This is true for most MNCs in China. The challenge is how to identify local needs, align a company's long-term CSR initiatives with these needs and establish effective and ongoing communication with key stakeholders.

### 2.2 Challenges in recognizing the need to “localize” CSR strategies

CSR strategies are essentially driven by stakeholder expectations (Commission, 2001). International and home-country voices are important, but local stakeholder groups may have different expectations for company responsibilities. Therefore strategic CSR requires cooperation with Chinese stakeholder groups and an understanding of their concerns and the cultural context shaping their expectations. This collaboration must include civil society groups and local residents.

### 2.3 Challenges in finding local NGO partners

NGOs provide their business partners with skills and knowledge of local issues and contacts invaluable to effective CSR activities. They also provide valuable connections to local communities. However, MNCs sometimes face challenges finding and cooperating with local NGOs in China for the reasons presented below:

- There are not enough experienced, professional NGOs operating on social and environmental issues, especially outside of major urban locations.
- Due to the early stage of development of Chinese civil society, local NGOs are weak in many aspects compared to their counterparts in developed countries. For example, some Chinese NGOs have little experience with program evaluation or promotion.
- Relatively few NGOs are truly independent and have been approved by the government and accepted by the public.
- Many Chinese NGOs have a government background or belong to the government, which is different from those of developed countries. These NGOs are typically less independent and not as accountable as grass roots NGOs.
- With so many NGOs in China, it can be challenging to determine the reputation and capacity of NGOs in China.

However, rather than avoiding NGOs, companies should assist them, as part of their support, to improve their organizational and project management skills and their professional capacity for dealing with media, government and business. In turn, NGOs often contribute strong commitment and knowledge of social and environmental issues.

### 3. Challenges along the Supply Chain

There also are challenges in implementing CSR program along the supply chain.

#### 3.1 Limited capacity of suppliers

China is one of the most important sourcing markets in the world. Although many MNCs have multiple small and medium enterprises (SMEs) in China as their suppliers, many do not provide adequate training or exercise due diligence in ensuring compliance with CSR programs. Consequently, suppliers may exercise insufficient internal control and lack CSR awareness and commitment. In some cases, suppliers have been suspected of or have actually committed fraud or forgery to pass CSR auditing, leading to invalid results and embarrassing judgments.

#### 3.2 Increasingly stringent environmental regulations along the supply chain

The environment in China has deteriorated dramatically along with its booming economy, and public concern is rising. Stricter environmental regulations have been passed by authorities at all levels. Failure to meet these regulations and rising public expectations are damaging to reputations and market share.

As the Chinese government's new laws aim to increase transparency, accountability and efforts to balance development with environmental protection, many analysts predict that MNCs and their supply companies will face closer scrutiny. MNCs can expect growing pressure to run a clean supply chain.

#### 3.3 Multiple suppliers within one CSR system

When suppliers are widespread, it is even more challenging to maintain effective social and environmental standards throughout the supply chain. International companies often have to deal with quite different suppliers at the same time. Suppliers, in turn, are affected by various territorial, administrative, industrial or even cultural influences, providing a tough challenge for CSR implementation, assessment and management.

### 4. Challenges from Growing Public Expectations

With the great and growing influence of MNCs, the general public tends to place higher expectations on these companies than on domestic ones. CSR issues related to MNCs are magnified by intense media coverage. Therefore there is real risk of lost reputations, disenchanted customers and decreased market share when companies fail to live up to their espoused values and ethical guidelines. For example, several inappropriate operations, including selling expired food, using food material that fell to the ground, and other poor practices in one of the McDonald's franchises in Sanlitun, Beijing were exposed by China's largest national TV network. This caused huge damage to McDonald's corporate image, even though McDonald's China immediately apologized through its

official micro-blog<sup>21</sup>. In contrast, the public typically shows more tolerance towards local restaurants committing the same mistakes.

It is also worthwhile to mention that as the Chinese business environment continues to mature so does civil society, including the rapidly emerging local NGOs. As a result, MNCs face more and more scrutiny on CSR issues in China. It will be a necessity to make timely and effective adjustments in their China CSR strategy, moving from a reactive public relations model to proactive programs that build and support positive connections to civil society and provide practical benefits in poverty alleviation, social development, health, education, and environmental protection.

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<sup>21</sup> <http://finance.ifeng.com/stock/roll/20120317/5764733.shtml>

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Exploiting low labour and environmental standards may bring short-term economic gains, but impose huge costs on society by harming public health, social justice and the environment. Companies responsible for these harmful practices are increasingly being exposed and very likely will lose public trust, goodwill and market share as a consequence.

# CHAPTER 3



## BUSINESS STRATEGY and CSR APPROACH

- LOOKING AT CSR IN CHINA AS A BUSINESS STRATEGY
- HOW TO DEVELOP A SUBSTANTIAL CSR STRATEGY IN CHINA
- RECOMMENDATIONS FOR CSR IMPROVEMENTS
- FINAL THOUGHTS

# LOOKING AT CSR IN CHINA AS A BUSINESS STRATEGY



## 1. Philanthropy Is Important, but CSR Is More than Donations

### 1.1 CSR is not simply philanthropy

CSR is rapidly gaining attention in China from government and the public. Charitable and philanthropic activities remain important to CSR for companies and society, providing support for those in urgent need as well as funding important social, educational, health and environmental programs. Some lead MNCs have designed specific CSR programs for China in order to build better public relations with local customers and authorities.

In 2006, *Forbes* published a list ranking donations from MNCs within China. HSBC took first place with a total of 22.7 million RMB, followed by BP with 16.1 million RMB. Toyota, Shell, Amway and other well-known companies were among the top donors (*Forbes*, 2006). However, in recent years, media and NGOs have disclosed that some who successfully built a charitable public image, in fact, have violated local laws or sold products below basic standards in China. In the case of HSBC lax regulatory-compliance practices have allegedly allowed HSBC units around the world to be used for terrorism and drug cartels. This example reminds us that CSR cannot be restricted to “donations” and “social services”. CSR is a fundamentally corporate self-regulation integrated into a business model, aimed at balancing economic development with the needs and best interests of society. Hence philanthropy and charity comprise only one component, albeit an important one, of CSR. They must be used to benefit society, and not primarily for public relations.

According to ISO26000, CSR involves seven main subjects: organizational governance, human rights, labour practices, fair operating practices, the environment, consumer issues, community involvement and development. As the ISO 26000 guide fully explains, CSR refers to a corporation’s vision, attitude and performance with regard to its stakeholders and society in general.

### 1.2 Charity alone risks criticism of green-washing

Donation to significant causes is important to achieving progress on environment, education, health and social development. However, it is insufficient without a broader practice of social responsibility. Reputations that take decades to build through charitable activities can be ruined by product-quality problems, corruption scandals or environmental damage. Such incidents or harmful practices also draw unwanted and unflattering attention from regulators, law enforcement, government, investors,

customers and media. Building a genuine culture of CSR within a corporation can minimize these risks and increase success (Broomhill Ray, 2007).

*Southern Weekly*, Greenpeace and *The Guardian* have pointed out that some companies donate generously, and their ads and labels promise environmental benefits. However, if what they deliver is not consistent with those promises, then they are condemned for misleading the public; this is known as “green-washing.”

For example, in 2011, Johnson Controls (JC) donated more than USD \$15.4 million worldwide to nonprofit and community organizations. JC claims that its philanthropic outreach efforts address charitable and community needs through financial grants and employee volunteer programs. On the other hand, the company was accused of greenwashing by *Southern Weekly Newspaper*. Despite the green and generous picture JC was painting, the company fought long and hard to open up a new product line that caused severe pollution in Shanghai, China.<sup>22</sup>

Companies using ads, slogans and charitable activities to divert public attention and silence critics are increasingly getting it wrong. If they were to spend as much time and money incorporating meaningful CSR practices into their business operations, both reputation and performance would improve. Stakeholders can distinguish between pretense and a sincere long-term commitment to making a real difference.

## 2. Responsible Business Creates Shared Value

Embracing CSR strategically at the executive level provides a company greater opportunities to enhance competitiveness and reputation while simultaneously advancing the overall economic, environmental and social conditions where it does business. Meaningful CSR creates shared value and focuses on identifying and expanding the connections between society and economic progress.

The following cases show how companies implement well-designed CSR strategies increase both corporate and societal benefits.

### 2.1 Developing products and markets

Companies that help meet social and environmental needs not only serve existing markets better, but also gain access to new ones more easily and lower their costs through innovation.

<sup>22</sup> <http://www.infzm.com/topic/2011plb.shtml>

**Case2: China Mobile**

**China Mobile** has had great success with this approach. In collaboration with the provincial Department of Health, China Mobile co-founded and promoted the New Rural Cooperative Medical Services (NRCMS) information management system in Guizhou Province.

Although it might seem that the economic payback cannot cover the 18 million RMB invested, the board and stockholders praised this project for its vision, commitment to society and its long-term benefits. Currently, the NRCMS covers 72 counties and 1,083 townships, connecting a network of 10,256 medical units and benefiting 23.99 million participating farmers, 13.02 million of whom have received assistance through this platform. This project not only helps farmers overcome the difficulties of inadequate and expensive medical services, but also upgraded China Mobile's service networks and built a good brand image. China Mobile's innovation and commitment will serve it well in new markets. Demonstrably, a society-focused CSR strategy, if properly conceived, can play an invaluable role in building customer loyalty and developing new markets based on distinctive ethical values and practical benefits for society.

**2.2 Redefining productivity in the value chain**

Companies can realize a win-win relationship through an enhanced business process. While improving product quality, reliability and service, lowering costs and enhancing its reputation, a company can simultaneously protect essential natural resources and contribute to social development.

**Case3: Wal-Mart Sustainability 360 Plan**

**Wal-Mart** advocates, *“Being an efficient and profitable business and being a good steward of the environment are goals that can work together.”* In order to adapt its CSR strategy to be more customer and environment-friendly, Wal-Mart designed the Sustainability 360 plan. It includes 13 sustainable value networks, each focusing on a specific area of business, such as building, food, packaging, and transportation. The networks are built to bring together voices of Wal-Mart's associates as well as suppliers, environmentalists, NGOs, scholars, and government leaders. In 2011, Wal-Mart reported reducing waste by 80%, saving customers USD \$1 billion and utilizing 1.1 billion kWh of renewable energy. According to the company this collaborative method is helping Wal-Mart provide products with high quality that are affordable, ethically sourced and environmentally friendly. While Wal-Mart's detractors have concerns about their business practices, the company nevertheless continues to seek improvement.

**2.3 Enabling local cluster development**

MNCs operate within their surroundings and the world at large, and not on an isolated island. Local suppliers, contractors, business partners and distributors are all part of a network for which the company has some responsibilities. Therefore, shared value can spread among them. A responsible business should promote, and will benefit from, a “CSR constellation effect.”

**Case4: BASF's "1+3" CSR Project**

Take **BASF** for example -- its concept of CSR is based on the following principle: a truly responsible company shall not only focus on working independently towards sustainable development, fulfilling its own CSR goals, but shall also try to mobilize its supply chain partners to practice CSR.

BASF launched its "1+3" CSR project under the platform of the China Business Council for Sustainable Development (CBCSD) in 2006. With this project, BASF creates a team with three types of partners along the supply chain -- customers, suppliers and logistics service providers -- with the aim of promoting CSR and giving guidance in the form of best practices, expertise and customized solutions. The three partner companies then each introduce the same concepts to three further business partners in their own supply chains. A snowball effect is the result.

BASF reports that its partners have made achievements in their EHS and production management, particularly in the fields of environmental protection, transportation safety and emergency response, enabling local cluster development and ongoing expansion of the "1+3" program.<sup>23</sup>

From the above cases, we can conclude that instead of being pushed by external factors, a MNC's CSR strategy should be internally generated and combine "doing good for society" with ensuring that both the company and its supply chain meet their EHS operating responsibilities. Thus CSR is not only based on achieving shared value (benefits), but also on the shared values (principles) used to develop and define a sustainable business strategy that meets both societal and economic needs. This approach sees corporate success and healthy communities as interdependent, and provides good evidence that sharing corporate values within a supply chain helps companies to respond more effectively to increasing public and government interest in CSR.

In conclusion, adopting CSR as a core value with serious implementation practices will position a company very well for a successful future. This view of economic success is based upon using a system of shared values to create shared benefits that meet human needs, improve efficiency, create jobs and therefore build healthier, more sustainable communities in China.

<sup>23</sup> [http://www.greater-china.basf.com/apex/GChina/GChina/zh\\_CN/content/BASF-China/1.4\\_Sustainability/1.4.7\\_1plus3/basf\\_1puls3](http://www.greater-china.basf.com/apex/GChina/GChina/zh_CN/content/BASF-China/1.4_Sustainability/1.4.7_1plus3/basf_1puls3)

# HOW TO DEVELOP A SUBSTANTIAL CSR STRATEGY FOR CHINA

## 1. Analyze the Links Between Your Business and CSR

### 1.1 Identify the links/focuses of your CSR work

Subsidiaries commonly inherit their parent companies’ CSR strategies by simply copying them. The reason for this phenomenon may include many factors such as lower operational costs and easier management, but the effectiveness of this approach is suspect both technically and practically.

Overlooking specific local needs and market variations is likely to increase the input-output ratio on CSR practices and public acceptance. Therefore, while planning local CSR strategies, MNCs need to recognize local stakeholder expectations, identify the greatest impacts of their operation on the local environment and society, and deliver practical results based on foremost CSR issues and best practices.

### 1.2 Useful tools for identifying important issues

#### 1.2.a GRI Materiality Principle

One efficient method to identify priorities is the GRI Materiality Principle. Among all the issues a company needs to consider, the materiality principle helps to identify the most significant issues and indicators with substantial economic, social and environmental impacts. It also helps to determine which CSR issues are most important to local stakeholders and communities. In general, ‘substantial impact’ suggests that great concern exists among experts and communities, as well as significant indicators derived from well-established tools such as impact or life cycle assessments.

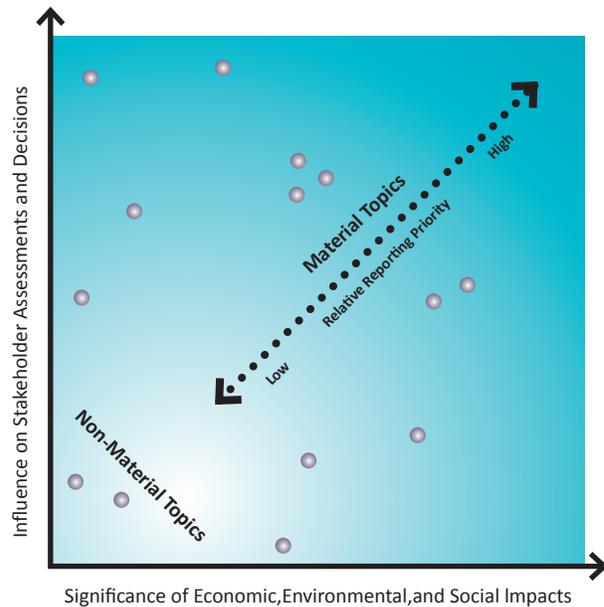


Chart 5: Materiality Matrix

Resource: Sustainability Reporting Guidelines (3.1), GRI

The Materiality Principle involves using both internal and external factors in determining whether and how the issue is material, including but not limited to the enterprise's overall mission and strategy, concerns expressed directly by stakeholders, broader social expectations and responsibilities, the organization's influence on the supply chain and customers, and international standards and agreements.

The Materiality Principle is a matrix tool represented by a rectangular coordinate system with the Y-axis referring to influence on stakeholder assessments and decisions, and the X-axis referring to significant economic, social and environment impacts. As a consequence, the northeast direction points out the most material issues.

#### Case 5: How Intel Applies the Materiality Principle in China

**Intel (China)** performs a materiality analysis systematically to manage important sustainability issues that their stakeholders identify and that have significant impact on their business operations. Intel identifies key issues by taking into account a variety of internal and external surveys, stakeholder questionnaires, relevant international standards, media, social networking and professional CSR websites, as well as workshops for responsible investors, officials and industry association representatives involved in these surveys and events.

The key issues are then selected, based on their relevance to stakeholders and impacts on Intel, and finalized after a review by management and the assurer (an independent third party certification body). The issues identified as material are fully disclosed in the sustainability report. The company also gathers stakeholder opinions through research firms and incorporates them into their business operations.

#### 1.2.b Other useful toolkits

Besides the GRI Materiality Principle, there are other widely adopted methods, such as the ISO 26000 frame (*described in Chapter II*) and Total Responsibility Management.

#### Total Responsibility Management

This refers to systems and procedures put in place to ensure responsible business practices and management. It is used to describe the codes of practice and systems that organizations use to manage their social, environmental, and ethical responsibilities in response to stakeholders, emerging global standards, general social trends and institutional and regulatory expectations. Some issues linked to labour, the environment and the community are included because they are subject to increasing scrutiny, assessment or regulation, while others are raised intermittently as a result of public controversies and expectations.

## 2. Conducting CSR: The Business Context in China

Developing substantial strategies for China requires that MNCs fully understand domestic expectations,

needs and concerns. In contrast to their experience in western countries, the development of CSR in China has been strongly influenced, and even dominated, by the Chinese government, a key driver for CSR development. The official attitude towards CSR can be deduced from the guidelines and CSR requirements for state-owned companies. Based on the 12<sup>th</sup> five-year plan (2011-2015), the Chinese government has raised new requirements for businesses to obey, mandatorily or voluntarily, during the foreseeable future.

- **Poverty alleviation** heads the list, especially actions *“to benefit agriculture and farmers and enhance the construction of ‘socialism new countryside.’*<sup>24</sup> To respond to this, MNCs can contribute by purchasing through local suppliers, introducing and popularizing modern agricultural technology and establishing philanthropic programs aimed at improving the living conditions of local migrant workers.
- **Building a resource-saving and environmentally friendly society** is one of the Chinese government’s top priorities during the current 12<sup>th</sup> five-year period. To achieve this, a large range of issues have been raised, which include proactively addressing climate change, resource conservation and management, developing a circular economy, promoting ecological protection and restoration, improving water resources and heightening disaster prevention and mitigation systems. The 12<sup>th</sup> five-year plan makes it clear that the central government’s environmental awareness, along with rising public expectations of even higher performance by foreign companies over domestic ones, will create a more challenging business context for MNCs.

Beijing City offers a good example. To accelerate development of a resource-conserving, environment-friendly society, Beijing City’s administration will put more emphasis on regulating the environmental impacts of industries, which will be another challenge for MNCs. As indicated in the plan, Beijing will strengthen industry responsibilities for energy conservation assessment and fully develop energy-saving regulations and standards. Implementation of standards for pollutant discharge and emissions, and supervision by law enforcement agencies, will be strengthened too. Costs for both development and environmental violations will be greater.

Another example is China’s move to accelerate low carbon technology development and application, and gradually establish a carbon emission trading market. Since many MNCs perform well in carbon trading markets, acts of leadership will be rewarded by Chinese governments.

- **Developing a skilled population** is also of great significance to China. MNCs can respond to this objective through personnel (occupational) training and investment in education through philanthropic programs.
- China is working **to promote community self-governance** as well as **improving the mechanisms for safeguarding people’s rights**. There are many opportunities for MNCs, such as corporate volunteer programs to serve the communities, support for NGOs working on participatory governance, participation in community projects for social development and healthy environments and so on.

<sup>24</sup> “Socialism New Countryside” means advanced production, improved livelihood, a civilized social atmosphere, clean and tidy villages and efficient management in rural areas in China.

### 3. Responding to Key Local Stakeholders

It is important to distinguish between local stakeholders and global ones. Local stakeholders are those residing in the communities where a company is active (Carroll, 2004). They expect MNCs to understand and address the social and environmental issues directly relevant to them, and to do so in a timely and geographically relevant manner. Hence MNCs need to maintain good communication with local stakeholder groups and respond to their expectations in good time. To be effective, MNCs need to meet the challenges of different cultures, economic conditions and stakeholder values, while remaining responsive to international expectations.

Generally speaking, government, employees, media, NGOs, business partners and customers are the main stakeholder groups for companies.

#### **Government**

In China, government is a powerful stakeholder and plays a proactive, often dominating role in social, economic and environmental affairs. Beyond understanding and responding to local governments' expectations, MNCs need to be prepared to adjust their CSR strategies to keep up with expectations as they develop over time. It is important to note that provincial and national governments also play important roles in setting local policies and standards.

The Chinese central government has played an important role in promoting CSR. Various departments have published administrative documents and policies in order to encourage and lead companies to fulfill their social responsibilities. For example, in January 2008, the state-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued specific CSR guidelines for state-owned enterprises. In general, it has been demonstrated clearly that business entities with good CSR practice will get more support from the authorities.

#### **Business Partners**

To choose qualified business partners is one thing; to maintain a good CSR record along the whole supply chain is another. No unanimous conclusion can be drawn among comments from MNCs concerning their Chinese business partners, and there is no general code of CSR management for the entire supply chain. It is clear, however, that MNCs need to supervise their Chinese business partners continuously to ensure CSR compliance is in keeping with the highest-level codes of conduct, is ethical and meets local, national and international requirements.

#### **Media**

The Chinese press has paid increasing attention to CSR issues in recent years. All media have begun comprehensive examination, assessment and reporting on business operations. They are no longer willing simply to publish positive behavior such as charitable donations outside of a broader context. Exposures of fraud, corruption and environmental contamination are becoming common practice, along with lawsuits.

#### **NGOs**

NGOs also are becoming more and more important in development and monitoring of CSR in China

because their networks expect and enable such participation, and their public support is growing.

NGOs in China can be divided into two primary types according to their attitudes towards business. One plays the role of overseer. A good example is Greenpeace, which has considerable influence and rich experience with a variety of environment-related issues. Such organizations pressure companies by all legitimate means possible. For instance, some notable organizations have tried to compel local garment manufacturers to improve labour standards and increase corporate transparency along the supply chain.

The other type of NGO seeks to cooperate with companies, often acting as CSR partners. Many of these are local groups and national and international organizations focused on addressing issues at the community level. One example is the Institute for Public and Environmental Affairs (IPE) that has worked with Apple and others to enhance EHS performance. Another is Friends of Nature (FON), now working with Royal Bank of Canada and Harmony Foundation on water stewardship in local communities. Engaging NGOs as partners or even as mentors on CSR can prove to be a winning strategy.

Although local NGOs may lack some experience or capability compared to their western counterparts, they make up for it in commitment and their projects often produce positive and practical results beneficial to both company and society. Mentoring such NGO's will prove to be well worth the effort in assisting the development of local capacity and building productive, long-term partnerships.

### **Customers**

The growing awareness and sophistication of Chinese consumers regarding CSR should not be underestimated. Companies should at least provide customers with open channels for comments, concerns and requests, and should address them in a clear and timely fashion. Even more effective is to share information, successes and failures transparently with the public and actively involve them in decision-making. Public relations aside, international information sharing on these issues necessitates serious engagement.

## **4. Achieve Strategy Localization by Engaging Stakeholders**

Stakeholder engagement can help in various ways, such as building social capital, reducing risk and reducing or avoiding conflict. For MNCs, in particular, it offers an effective approach to examining whether they have fully addressed crucial local issues and met domestic expectations, which are both essential to long-term success.

Proactively and continuously engaging stakeholders establishes an effective communication platform to appreciate local concerns, and provides an efficient aid to identifying CSR priorities and receiving quick feedback to evaluate specific CSR practices.

On one hand, it is wise and necessary to listen to stakeholders during the strategy-making process. Brainstorming sessions with senior managers, employees, business partners and other key stakeholders are helpful. On the other hand, ongoing dialogue with stakeholders helps to test whether the CSR

strategy is on the right track. By continuously integrating and addressing the input of key stakeholders, the strategy and its implementation can be significantly improved.

### DEVELOPING A SUBSTANTIAL CSR STRATEGY FOR CHINA

- **Identify focuses of your CSR work -- tools recommended include:**
  - GRI Materiality Principle
  - ISO26000 Framework
  - Total Responsibility Management
  
- **Respond to China's national priorities:**
  - Alleviate poverty
  - Build a resource-saving and environmentally friendly society
  - Develop a skilled population
  - Promote participatory governance
  
- **Respond to local key stakeholders:**
  - Governments
  - Business partners
  - Customers
  - Media
  - NGOs
  - Others

# RECOMMENDATIONS FOR CSR IMPROVEMENTS

## 1. Improve Cooperation between Headquarters and Branches

One of the most prominent features of a MNC is having its headquarters (HQ) in one location and branches in other countries. Therefore, when adopting and implementing an overall CSR strategy, both HQ and branches should be involved throughout the process. Tailoring CSR strategies and programs to meet local needs is another essential ingredient for success.

In 2009, Maria Lam interviewed 25 Chinese executives who worked for 21 MNCs. All interviewees agreed that there was a “*high stress level*” because they had to follow “*many organizational procedures while dealing with the changing Chinese environment,*” which is a “*complex macro-economic, political-legal, and cultural environment that was much different from that of their headquarters*” (Maria Lam, 2009).

The evidence, therefore, is mixed. Some MNCs provide little or no guidance on CSR, often failing to have developed a China strategy. In too many other cases company HQ determines an overall CSR strategy with limited knowledge of circumstances and expectations in foreign markets. The former produces little or no good results and the latter ignores at company peril the reality that branches likely have a deeper understanding of the social environment where they operate, as well as a better grasp of the expectations of local customers and governments. Forced to follow HQ’s overall CSR strategy, branches may respond with confusion, resistance and little enthusiasm, and the cooperation necessary for CSR success is compromised. Left on their own, branches struggle to comply with the often conflicting expectations of local stakeholders and HQ.

The following recommendations focus on approaches to help corporations achieve more effective development and implementation of CSR strategy:

### 1.1 Building a Collaborative CSR Department Structure

- **Establishing a CSR committee** of the board, and having senior management at HQ on board, is essential to developing effective CSR policies and programs and ensuring that ongoing review and updating of CSR activities are part of a company’s overall strategy. In turn, this signals a serious commitment to operational managers and general staff. The committee should regularly consult

representatives from all departments to ensure the highest possible CSR performance, along with effective communication with senior management on successes, failures and promising new ideas.

- **CSR departments (or offices) at the branch level should be established** in each operating country, tied both to local operations and to HQ. Building a central CSR department or office in China with supervisory responsibilities will facilitate monitoring each branch's overall CSR practices, and expedite appropriate responses to social, political, cultural and economic issues.
- **Setting up community outreach councils (COC)** at each location in China can help with organizing, administering and evaluating specific CSR programs and will facilitate exchanging information with local stakeholders. Such initiatives also build employee understanding, support and compliance. Mobilizing local resources makes the effort more relevant.

#### Case 6: A Collaborative CSR Structure

**Carlsberg Group** is a diverse transnational company which has branches in 150 countries. It is well understood by its headquarters -- based in Copenhagen -- that each branch is confronted with specific challenges in the countries within which they operate. Within Carlsberg, a **GloCal** (a combination of GLOBAL and loCAL) approach was taken to develop a strategy on the global level while acknowledging local diversity. By adopting a cross-functional structure, the CSR Steering Committee provides overall strategic guidance while the local and functional CSR champions and a central CSR unit are responsible for the daily implementation of their CSR strategy.<sup>25</sup>

## 1.2 Strengthening Communication Lines

Improving communication lines within the "HQ-Branch relationship" is important for branch personnel to feel part of the team and valued by HQ. Communication can be strengthened by:

- **Sharing knowledge**  
Establishing an effective mechanism for internal information sharing is fundamental for cooperation between HQ and branches. Instead of applying the traditional vertical communication approach, there is greater value to be found in a communication structure that deals effectively with distance. Newsletters, a database and even software can be used as tools for ongoing information sharing as well as regular personal contact.
- **Educating/training**  
CSR education and training can be used effectively by headquarters to communicate with branch employees. It is one mechanism for ongoing improvement and more effective in-house communication, in which HQ conveys the overall strategy to branches while allowing for local input.
- **Reporting**  
CSR divisions of the branches in China should report regularly to the CSR committee at the HQ level

<sup>25</sup> <http://www.carlsberggroup.com/csr>

on their performance, proceedings and matters within the scope of their duties and responsibilities. The branch's role is to identify local issues that are relevant to the company's CSR policy, to report to HQ with recommendations on actions and improvements, and to implement remedies with HQ.

### 1.3 Personnel Networking

Personnel contact will have a direct impact on the depth, breadth, longevity and overall effectiveness of communication, thereby promoting a company's CSR work. It engenders ongoing enthusiasm and commitment.

- **Exchange visits**

Exchange visits help strengthen working relations. Regular, CSR-focused visits from HQ offer branches support and assistance. The goal of these visits should be to achieve practical results. The impact on morale, as well as effectiveness, can be tremendous. When senior executives travel from HQ to engage in dialogue with local staff and stakeholders on CSR issues, HQ-branch coordination is strengthened and CSR strategies and practices can be improved. Conversely, HQ should encourage branch representatives to visit and share their on-the-ground experience with HQ and other branches, or to hold workshops on successful cases with HQ. The sharing of information among various locales provides insights useful to both branches and HQ.

- **Temporary relocation of senior management**

For dealing with difficult issues and solving tough problems, HQ can assign senior managers to assist branches. Managers with leadership skills and experience managing CSR issues should work on-site with a local team on day-to-day operations, motivating local staff to carry out the CSR tasks and mission and providing valuable practical experience.

## 2. Advance CSR through Human Resources

Human Resource (HR) management plays a key role in CSR practice. CSR should be part of orientation as well as ongoing training. In this way, staff understanding of and commitment to CSR are enhanced, and the evidence indicates that they will be proud of working for a responsible employer.

The process must start with a clear blueprint that offers a step-by-step guide for staff performance worldwide. Locally relevant supplements should be included for each country. The role of HR management in realizing the CSR strategy should focus on the following three aspects, which should be outlined within both global and local frameworks:

### 2.1 Compliance

Many believe that the way a company treats its employees is indicative of behaviour meeting its wider responsibilities. Therefore, high-level performance on EHS is very important.

- **At the global level**, a MNC can adopt the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the GRI or the ISO26000, etc.

- **At the local level**, a MNC should not only abide by international or HQ requirements, but also pay attention to local standards, since every jurisdiction has specific requirements and challenges. Currently in China, crises on labour issues are routine and violations widespread. Discrimination against women, migrant-workers, Hepatitis B carriers and the use of child or forced labour are especially serious. Attempts to exploit lower standards are made at companies' peril, especially if such conduct risks public health and safety or harms the environment. Both domestic and international consequences come swiftly.

#### Case 7: Wal-Mart's First Union in China

In 2004, the state-sponsored All-China Federation of Trade Unions (ACFTU), called for all foreign-invested companies in China to recognize its unions, claiming it would 'blacklist' and take legal action against any foreign firms refusing to allow unionization.<sup>26</sup> On July 29<sup>th</sup>, 2006, Wal-Mart, the world's biggest retailer, broke its long-standing practice of resisting union-organizing efforts at its stores, and its first trade union was formed in Quanzhou, Fujian province, China. Within the next two months, all 62 Wal-Mart stores in 30 Chinese cities formed their own trade unions.<sup>27</sup>

**Table 4: Laws and Regulations on Labour Issues in China**

CATEGORY	NAME	DISCRIPTION	DATE of ENTRY into FORCE
Laws	Labour Law of PRC	Promulgated by the Standing Committee of the National People's Congress of China, this is the basic labour law of China.	Jan 01, 1995
	Trade Union Law of PRC	Ensures the status of trade unions in the political, economic and social life of the State by defining their rights and obligations.	Oct 27, 2001
	Labour Contract Law of PRC	Formulated to improve the labour contract system by specifying the rights and obligations of the parties to labour contracts, and protecting the legitimate rights and interests of workers.	Jan 01, 2008
Regulations	Regulations on Labour Management in Enterprises Involving Overseas Investment	Promulgated by the Ministry of Labour and the Ministry of Foreign Trade and Economic Cooperation, the Regulations protect the legitimate rights and interests of both foreign-invested enterprises and employees working in these enterprises.	Aug 11, 1994

<sup>26</sup> [http://www.yqgh.org.cn/Art/Art\\_13/Art\\_13\\_1332.aspx](http://www.yqgh.org.cn/Art/Art_13/Art_13_1332.aspx)

<sup>27</sup> <http://business.sohu.com/20061018/n245859665.shtml>

**Table 5: Government Agencies and Government-related Organizations on Labour Issues**

NAME of ORGANIZATIONS		DESCRIPTION
<b>Government Agencies</b>	Ministry of Human Resources and Social Security of PRC	This ministry under the State Council is responsible for national labour policies, standards, regulations and managing the national social security. Official link: <a href="http://www.mohrss.gov.cn/">http://www.mohrss.gov.cn/</a>
	National Working Committee on Children and Women	It pushes relevant government departments to implement fully the UN's Convention on the Elimination of All Forms of Discrimination Against Women and Convention on the Rights of the Child, along with other international conventions on protecting women's and children's rights and interests. Official link: <a href="http://www.nwccw.gov.cn/">http://www.nwccw.gov.cn/</a>
	State Administration of Work Safety	This agency operates directly under the State Council for overall supervision and regulation of work safety. It is also the working body of the Office of the State Council Work Safety Commission. Official link: <a href="http://www.chinasafety.gov.cn/">http://www.chinasafety.gov.cn/</a>
<b>Government-related Organizations</b>	All-China Federation of Trade Union	The Union is open to all manual and mental workers in enterprises, undertakings and offices inside China whose wages constitute their principal means of livelihood and who accept the Constitution of the Chinese Trade Unions irrespective of their nationality, race, sex, occupation, religious belief or educational background. Official link: <a href="http://www.acftu.org/">http://www.acftu.org/</a>
	All-China Women's Federation	It represents and protects women's rights and interests, and promotes equality between men and women. Official link: <a href="http://www.womenofchina.cn/">http://www.womenofchina.cn/</a>
	All-China Youth Federation	It aims to represent and protect the legitimate rights and interests of young people and promote youth participation and development. It runs programs and activities in education and training, protection of rights and interests, innovation and employment. Official link: <a href="http://www.acyf.org.cn/">http://www.acyf.org.cn/</a>

## 2.2 Provide Career Development Opportunities

Besides guaranteeing the fundamental rights of employees, MNCs committed to growing together with local employees will be more successful over the long term, exhibiting greater progress in the company's CSR performance and developing a positive image and reputation.

Many comprehensive and applicable global frameworks indicate the necessity and benefits of improving employee development. For example, OECD Guidelines for Transnational Companies encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees. The International Labour Organization (ILO) also asserts that MNCs should

ensure that relevant training is provided for all levels of placement in the host country to meet the needs of the enterprise as well as the development of the country's policies (ILO, 2001).

A MNC's employee development strategy should follow these guidelines:

- Recognize the importance of investing in career development. Personal social development, educational achievement and lifelong learning, as well as career management are generally recognized aspects for employee development (NCDG Framework). A MNC should abide by these universal principles and put them into practice in China.
- Provide local employees with career development opportunities by helping them to be adaptable to different working environments and to be able to consider issues from different angles. The toolkits include job rotation, cross training, mentoring, internships, coaching, and career strategy groups (UCSF).
- The company should match organizational and individual employee goals to achieve win-win outcomes. Meanwhile, these approaches should be accompanied by incentive mechanisms such as promotions or lateral moves within company.
- Develop generally useful skills and promote career opportunities in cooperation with the authorities of China, academic organizations and competent local, national or international institutions. It is highly recommended that a MNC set up ongoing partnerships with universities and other training providers in China to offer staff mid-career study opportunities. Cooperation with NGOs and training organizations can provide valuable on-the-job training.

#### Case 8: GE's Effort on Chinese Employee Development

By the end of 2010, **GE China** employed over 13,000 people with more than 16% of them working for GE for more than 15 years. To achieve such loyalty, GE invests over USD \$1 billion in training globally every year. In China; around a third of employees receive training from GE China's Learning Center every year; 98% of GE China employees are from within China, and about 70% of management level positions are filled from within (GE 2010).

### 2.3 Internalizing CSR Culture

It is commonly held that if employees are not engaged, CSR becomes an exercise in public relations (Coro Strandberg, 2009). Therefore, HR management should take the responsibility to develop a CSR culture that is deeply rooted in day-to-day work of employees. HR's efforts to promote a CSR-centric corporate culture can also positively influence personal actions and attitudes, encouraging employees to participate in charitable activities outside of work. Such participation is beneficial to society and employees, and it shines a positive light on the company.

Disseminating the company's principles and policies and achieving buy-in are much more likely to happen if the company inspires employees to feel as if they are partners and guardians of the company's values and culture. This requires developing local leadership as well as engaging employees through education, communication and tools that equip them with the knowledge, commitment and skills needed in their specific jobs. Recommendations for actively engaging global business units and local workforces include: establishing a local presence, developing local ethics and compliance leadership, educating all employees on ethical conduct, and building culturally relevant and responsive reporting systems.

To increase employee's understanding of corporate CSR strategies and programs and help them improve overall performance in CSR practice, a company can do the following:

- Ensure employees' alignment with the strategic CSR direction. A MNC can provide orientation and training to introduce CSR policies and core values for all employees.
- Integrate a CSR dimension into all training programs, especially for employees whose jobs are directly related to social responsibility issues, such as employees in resource conservation and waste and pollution reduction. Moreover, training about professional or technical skills, and code of conduct must be provided.
- Motivate employees to implement CSR strategy through day-to-day work, for instance, advocating recycling in the office, encouraging reduced energy and water consumption, and increasing the use of teleconferencing rather than travel for routine on-site meetings.
- Encourage employee involvement in key CSR decision-making processes.
- Encourage regular employee donations to and volunteering for community programs and events.

### 3. Conduct Self-evaluation on CSR for Improvements

Comprehensive self-evaluation is the first step to improving a company's CSR performance, and ongoing re-evaluation is essential to long-term success. Self-evaluation needs to be executed at different levels in a MNC, with targets covering various aspects, such as governance, environment, labour, community relations and business ethics. Some well-designed self-evaluation tools can be applied for specialized areas, like supplier self-evaluation.

Self-evaluation will benefit MNCs in several ways as listed below:

- **Compliance with commitments and stakeholder expectations**  
More and more companies make commitments to 'be a good corporate citizen' or give similar promises on CSR practices. They need to take further measures to evaluate whether the commitment has been or is on the right track to being fulfilled and whether the expectations of their stakeholders are met. They can also reveal gaps between facts and objectives in order to enable improvements in planning, implementation, assessment and reporting.
- **Improved CSR performance**  
Through the evaluation process, awareness of CSR as core company policy will be improved. Meanwhile, reviewing commitments will ensure more effective implementation of CSR initiatives and

allow prompt actions, including personnel changes, to reinforce CSR commitment and performance based on evaluation results.

In spite of all the advantages discussed above, there are inevitable limitations with self-evaluation. The temptation to modify results or to fail to report unflattering ones, may occur for various reasons -pleasing the boss and stakeholders, pressures of competition, blind loyalty to the company, fear or resentment. Therefore, self-evaluation should be seen as a supplement, not a replacement, to independent external audit. Independent and effective oversight is vital to success and credibility.

A company can launch self-evaluation annually or conduct it over a relatively longer term in order to look more thoroughly at various aspects of operation. Two major methods of self-evaluation are questionnaires and key performance indicator (KPI) measurements. Many useful tools have been developed for this purpose -- a few are mentioned here:

### 3.1 UNDP--CSR Self-assessment Handbook

The CSR Self-assessment Handbook, released by the United Nations Development Program, offers a thorough, all-around guidance on how to conduct self-evaluation throughout the organization in five areas - governance, the environment, labour, community relations and responsible business practices, each representing 20 scores out of 100 in total. For each area, the handbook provides a 7-step instruction as follows.

- The indicator question and scoring
- Definition of the indicator
- Criteria –the basis on which decisions on scoring should be made
- Documentation – where the information could be found
- Methodology or suggested steps for improvement of CSR performance on certain indicators
- Relevance – practical value and importance of indicators
- Use guide – elaborated cases based on tool-testing experience

After completing the whole process, a company will understand the general state of CSR performance and see more clearly where improvements are needed.

### 3.2 Human Rights Impact Assessments and Management

*The Guide to Human Rights Impact Assessment and Management* (2010) developed by International Business Leaders Forum (IBLF), International Finance Corporation (IFC) and the UN Global Compact provides guidance on how to assess and manage human rights risks and the impacts of business activities through an iterative, dynamic and interconnected process which comprises a seven-stage cycle. (See Table 6)

**Table 6: Seven Stages for Human Rights Impact Assessments and Management**

STAGE	Procedures
<b>1. Preparation</b>	<ul style="list-style-type: none"> <li>■ Determine the company's human rights due diligence approach</li> <li>■ Scope the company's human rights impact assessment</li> </ul>
<b>2. Identification</b>	<ul style="list-style-type: none"> <li>■ Identify the key human rights risks and impacts</li> <li>■ Set the baseline</li> </ul>
<b>3. Engagement</b>	<ul style="list-style-type: none"> <li>■ Engage with stakeholders to verify the human rights risks and impacts</li> <li>■ Develop a grievance mechanism that considers human rights issues</li> </ul>
<b>4. Assessment</b>	<ul style="list-style-type: none"> <li>■ Assess the human rights risks and impacts</li> <li>■ Analyse the assessment findings</li> </ul>
<b>5. Mitigation</b>	<ul style="list-style-type: none"> <li>■ Develop appropriate mitigation action plans</li> <li>■ Present the action plans and recommendations to management</li> </ul>
<b>6. Management</b>	<ul style="list-style-type: none"> <li>■ Implement the mitigation action plans and recommendations</li> <li>■ Integrate human rights within the management system</li> </ul>
<b>7. Evaluation</b>	<ul style="list-style-type: none"> <li>■ Monitor, evaluate and report on the company's capacity to address human rights</li> <li>■ Review the evaluation and make appropriate adjustment if necessary</li> </ul>

### 3.3 Other useful tools include, but are not limited to the following:

- *Impacts Code* from the International Social and Environmental Accreditation and Labeling Alliance (ISEAL)
- *Sustainability Integrated Guidelines for Management (SIGMA) Toolkit* jointly published by the British Standards Institution, Forum for the Future and AccountAbility
- *Corporate Social Responsibility Self-Assessment Tool* from the International Business Leaders Forum
- Guidance on specific industries, such as *Information and Communications Technology (ICT) Supplier Self-Assessment Questionnaire* jointly developed by Global e-Sustainability Initiative (GeSI), Supply Chain Working Group and Electronic Industry Code of Conduct (EICC) Implementation Group

## 4. Strengthen Community Engagement

Community engagement refers to a wide range of actions that companies can take to have a positive impact on communities where they operate through financial subsidy, products, services, knowledge and skills, and other resources. It fosters cooperation and brings together the combined experiences, expertise and knowledge of community and business on problem solving, and planning and implementation of programs and activities beneficial to the communities. Typically, it includes philanthropic donation, corporate incentives for employee giving and employee volunteering. (World Bank, 2006)

Companies are an integral part of communities, yet far too many companies reduce community engagement to public relations and occasional donations, losing valuable assistance in identifying and meeting shared goals. In fact, corporations should see community engagement as an invaluable and ongoing process to:

- build and enhance relationships with local communities and stakeholders,
- work collaboratively with local groups for sustainable development, and
- demonstrate commitment to responsible business operations.

#### **4.1 Assessment and management of community impact**

All businesses have significant impacts on the communities where their products and services are made and sold, and their wastes are discharged. For instance, a paper mill may bring pollution to a village. If it is not well assessed and managed, such impact will not only harm local people and the environment, but also will damage the company's standing in the community and with stakeholders and regulators. Poor performance inevitably leads to closer scrutiny, which in turn can hamper future activities.

Therefore, companies have to assess and manage community impacts proactively and comprehensively. However, community engagement is more than just minimizing damage. It is about investing in healthy communities with good environmental, educational, cultural, health and social programs. Successful companies recognize the need to make investments in society that go beyond mitigating damages in their operating communities.

#### **4.2 Strategy for Community Engagement**

It is meaningful for a company to go beyond community impact management. Supporting activities and programs within local communities not only strengthens relationships but also contributes to healthier societies and a cleaner environment, as well as cultivating the skilled people essential for business success. Examples are: supporting schools and hospitals, programs for the elderly and disabled, environmental protection, cultural activities and poverty alleviation. Seeing such contributions as investments rather than gifts is transformative, taking the relationship from paternalism to partnership.

##### **4.2.a Find the Right Cause.**

Society invests considerably in business – infrastructure, research and development, tax incentives, trade missions, transportation, promotion and so on. In turn, companies should pay back to society, investing where society benefits most, and not only disaster relief. Such investment benefits business too.

At the same time companies should identify core causes and organizations with whom they can build sustainable relationships based on mutual respect and shared goals and values. For example, an IT company could help a migrant school to establish a computer lab, or train community groups on how to use social media tools efficiently to promote their projects. Pharmaceutical companies can assist with public health issues, and banks can invest in water stewardship or micro-lending for small business. When a company chooses the cause, management personnel should ask, "Are we as motivated by the benefits to society as we are by benefits to our business?" Supporting the right cause for the right reasons will strengthen a company's overall position and success.

##### **4.2.b Choose the Right Way for Community Engagement.**

In general, there are four different ways of community engagement, and companies need to choose those best matching with their goals and communities' needs.

### Direct Financial Support

Companies should provide direct financial assistance to local communities. It is worthwhile and laudable. MNCs have long histories of supporting communities in need, but that isn't the primary purpose or function of community engagement. It is, rather, to proactively involve society in the process of development that is beneficial for business and communities alike.

In China, approaches to direct giving may align with one of the two following scenarios:

- First, financial support may be used to cover communities' recurrent costs or maintenance of infrastructure facilities and essential public services for residences. For example, companies may support the road, water and electricity supply constructions in poor rural areas in western China, or services such as basic education and community nursing.
- Second, direct giving can be dedicated to responding to emergencies such as devastating earthquake, droughts and floods. MNCs have long histories of supporting communities that have fallen victim to natural disasters via direct giving, including numerous experiences of doing it in China. The challenge, however, is to go beyond disaster relief to pro-active development of healthy, sustainable communities and the robust civil society essential to long-term success.

### Working with NGOs

Coordinating philanthropy with local NGOs certainly is more efficient in any case. Companies can support local NGOs' work with financial assistance and in-kind donations, and through skills development. For example, if a MNC is interested in improving local communities' efforts in water conservation and protection, the company can join forces with a well-respected NGO whose focus and expertise have to do with water issues. Suggestions about how to work with NGOs will be covered in a later section in this chapter.

### Community Foundations

A MNC can introduce advanced experiences into their community engagement practice within China. It might, for example, help to build a community foundation, designed to develop the expertise and funding for greater self-sufficiency. Community foundations can maximize the effectiveness of donations by responding to community priorities.

Community development has been recognized as a priority for China's social improvement by central and local governments. However, the movement for community-based foundations in China is still in its infancy. Alternatively, MNCs can establish their own corporate foundations, as they have done in western countries, to deliver philanthropic programs in China. However, it is essential that such initiatives are locally led, lest companies be criticized as self-serving and inefficient, using valuable funds on self-promotion.

Whatever platform is chosen, the company can enhance public engagement by providing financial aid for initiatives such as community welfare projects involving senior citizens and the disabled, recreation facilities and support to community-based indigenous organizations.

### Employee Community Engagement Initiatives

There are various ways for companies to support their employees' community involvement, including:

- **Employee Fund Raising**

For example, when disaster arises, employees may wish to raise money for disaster relief. Companies can support employees by matching funding or lending time, space and other support to allow employees to carry out fund raising activities.

- **Mentoring**

Employee(s) working with individual(s) and local organizations can provide support and guidance on a one-to-one basis. Examples might include youths who need special attention or stronger guidance, someone from a single parent family, a mentally challenged person, or someone struggling with illiteracy, education, social or health issues.

- **Skill Based Volunteering**

A company may share the skills of employees with community organizations, NGOs and other groups without charge. For example, a water management company can send a water expert to the community to help with their water conservation project. Staff can help set up effective accounting or project management systems.

- **Personal Volunteering**

Companies can provide paid time for employees to volunteer in community development activities, perhaps 1-2 days a month.

Promoting employee voluntary engagement requires paying attention to two considerations:

- **Differentiation between western and Chinese cultures and circumstances**

Volunteerism and corporate philanthropy are relatively new to China; a MNC should motivate and train corporate volunteers as it models and encourages philanthropy.

- **Subsidy and compensation for volunteers**

In addition to providing employees some paid volunteer time, a MNC should pay attention to locally relevant regulations or standards on compensation for volunteers. For example, Volunteer Service Regulations of Zhejiang Province require that volunteer projects of high risk or ones involving foreign affairs should be guaranteed by written agreements between volunteers and the project organizer. Employers are liable for injuries to employees when they are participating in a corporate-organized volunteer activity within the boundary of employment or if the injuries are caused by corporate faults.

## 5. Improve Philanthropy

### 5.1 Understanding Philanthropy in China

The devastating earthquake (7.9 Richter scale) that struck Sichuan on May 12, 2008 “forever changed the landscape of CSR in China” (CKGSB, 2012). “Up to this point, charitable giving had never been a ruler by which public leaders were measured in China” (The New York Times, 2009). Soon after the earthquake, a list of “iron roosters” -- a symbol of stinginess in Chinese -- was organized and spread online. International giants like Samsung, Nokia, Coca Cola, KFC and McDonalds were on the list. Those companies did make some donations to the disaster area, but compared to their profits in China and donations from China’s domestic companies who had less profit, it was generally viewed as inadequate.

As the saying goes, “Misfortune tests the sincerity of friends.” Chinese people judge how much a company cares about China and its people by the generosity and timeliness of the company’s reaction to natural disasters. This “iron rooster” event fully reflects the importance of understanding the important differences in philanthropy between China and western countries.

The first difference lies in how the west and China value non-crisis versus crisis donations. In the west, companies have learned that regular donations and ongoing relationships are more effective to address social development and environmental needs, as part of building a reputation as a good corporate citizen. While they also recognize the need to make extraordinary donations when disaster relief is required, generally their donations are regularly made and spread over the group of countries where they have operations. In contrast, Chinese people genuinely care about others in need due to disaster, but they traditionally save up money for the next generation, partly because of the inadequate social insurance system in China; therefore, regular donations have been uncommon in Chinese society.

Secondly, there also is a difference in how donations are made. In the west, companies contribute to a charity, NGO or other recipient directly, and the entire charitable donation earns a tax credit. In China, companies have to give donations to the government, the Civil Affairs Department, or a handful of government-authorized charity groups, and then donations are distributed to disaster-affected areas through government or via those designated charity groups. Although there are over 400,000 grass roots NGOs in China, none of them is allowed to issue receipts for tax purposes. Even when companies donate through government, they only get tax deductions for the amount of donation that is less than 12% of annual profits.<sup>28</sup> While Westerners consider making donations to government akin to bribery, the Chinese public thinks it “makes perfect sense in the Chinese culture” because government holds authority and power (Fang, 2010).

However, attitudes are changing as people increasingly recognize the importance of philanthropy as an investment in social development and healthy environments, and they accordingly expect companies to do their fair share.

<sup>28</sup> According to article 53 of The Enterprise Income Tax Law (2007), “The public interest expenditures incurred by an enterprise are deductible to the extent that they do not exceed 12% of the annual total amount of profits of the enterprise.”  
From <http://www.chinatax.gov.cn/n8136506/n8136593/n8137537/n8138532/8233840.html>

## 5.2 Designing Philanthropy Projects

### 5.2.a Ways to do Philanthropy in China

MNCs can apply various approaches to realize their philanthropic goals in China; specifically, there are three ways:

**Direct giving** is the most common and recognizable method, including donations of cash and goods. Due to the advantages of efficiency, simplicity of implementation and direct and immediate influence over the grantees, many MNCs recognize it as the fundamental approach of doing philanthropy in China.

The advantages of direct cash donations are increased by income tax deduction. Article 53 of the *Regulation on the Implementation of the Income Tax Law* of the People's Republic of China states that “public interest expenditures incurred by an enterprise are deductible to the extent that they do not exceed 12% of the annual total amount of profits of the enterprise.” However, the relative inexperience of some charitable organizations may require additional assistance with reporting and accounting.

Typical fields within which a MNC can donate cash or goods directly in China are disaster relief, poverty alleviation, health promotion, and education development in rural areas.

Be advised, however, that the domestic laws and regulations toward charitable foundations sponsored by foreign companies are underdeveloped. The grey areas may cause international foundations to be hesitant to establish a foundation in China. However, not only the public but also governments are starting to realize that a foundation sponsored by a MNC can provide substantial resources to alleviate social and environmental problems.

Building a foundation locally enables a MNC to donate cash directly and easily, and to support other organizations and communities strategically, as well as raise funds for charitable purposes from other sources. In addition, a charitable foundation in China can help the company deepen its ties with local stakeholders and develop a clearer philanthropic strategy toward urgent and special projects. A MNC can refer to the State Council's *Administrative Regulations on Foundations* (June 1, 2004) when considering establishing a foundation in China. According to Article 2, an overseas entity must use its PRC subsidiary as the donor to set up a PRC foundation, provided certain conditions are met.

#### Case 9: Charity Foundation of Amway (China)

**Amway Charity Foundation** is the first non-public foundation with MNC background that is under the direct supervision of the Ministry of Civil Affairs in China. With a starting fund of 100 million RMB, it was established by Amway China in accordance with the *Administrative Regulations on Foundations*. Upon receiving approval in January of 2011, the Foundation was officially registered with the Ministry of Civil Affairs of PRC.

**Corporate volunteering** also can help to improve corporate philanthropy practice. It is an effective way to engage local communities and motivate employees, and to connect more effectively with both. China has a strong tradition of mutual help and a culture that encourages individuals to undertake voluntary work. However, this value is declining and long-term corporate volunteering in China will not only help

realize the company's philanthropic strategy, but also restore the values of volunteerism.

#### Case 10: Sony's volunteering program

Some One Needs You (S.O.N.Y) Day is **Sony's** signature volunteer program. Each year, several thousand employees from Sony participate in S.O.N.Y. Day and take part in this global initiative. SONY volunteer program is dedicated to science education, environment protection and education-aid programs in China.

**Venture philanthropy** takes concepts and techniques from venture capital finance and high technology business management, and applies them to achieving philanthropic goals<sup>29</sup>. As a new component of philanthropy, it was originally developed and became popular in western countries. Venture philanthropy stresses engagement of donors and grantees in the whole process; for example, some donors will take positions on the boards of the non-profits they fund. The engagements are focused on areas such as fiscal management, intellectual management and human capital management. Through long-term partnerships with grantees, a MNC can provide funds as well as capacity building for the grantees to maximize the breadth and sustainability of their impact. As a new approach with the potential to cultivate and motivate social vibrancy in China, venture philanthropy is widely praised. However, one must make sure not to be perceived as using economic power to dominate the social agenda and charitable activities. Venture philanthropy is most effective when applied as part of a comprehensive, long-term relationship based on shared values.

#### Case 11: Lenovo China's Venture Philanthropy

**Lenovo China's** investment in Venture Philanthropy, an innovative approach focused on grass-root NGOs in China, aims to increase capability and skill building in the areas of strategic planning, IT, HR and financial management. Since 2009, 6 million RMB in financial assistance has been donated to over 32 NGOs across the country.

### 5.2.b Principles of project design

#### Identifying priorities geographically

Any philanthropic projects should identify and address the priorities of geographic areas and not try to impose one-size-fits-all strategies. When designing corporate philanthropy in China, a MNC should first consider the greatest needs of China and the participating local communities. For instance, philanthropic investment on reforestation, soil conservation and water protection is greatly needed in western China, where the natural environment is a major concern. However, in eastern China, especially areas like the Yangtze River and Pearl River deltas, where manufacturing industry is highly developed, philanthropic projects may focus on migrant workers' rights protection or control and remediation of industrial pollution.

<sup>29</sup> [http://en.wikipedia.org/wiki/Venture\\_philanthropy](http://en.wikipedia.org/wiki/Venture_philanthropy)

### Selecting the best grantees

Since philanthropic activity usually can be carried out more effectively and efficiently through charitable and community organizations, a MNC should carefully select the most effective organizations as their partners and donation recipients. *(For more details, refer to “How to find the right NGO partners in China” elsewhere in this chapter.)*

When doing philanthropy, a MNC has the ability to raise a lot of money, cooperate with prestigious partners and help manage the campaign well, but the impact on grantees is an important factor in evaluating the project. Therefore, to achieve the greatest social benefits, the company should

- conduct thorough consultations with third parties to assess the effectiveness, performance records, compatibility and reputations of candidate organizations,
- interview the best candidates to understand their goals, principles, practices and needs, and select recipients most deserving of support, and
- build long-term, mutually beneficial relationships.

Remember, the primary objective is to produce social, environmental and economic benefits important to China and participating communities. To this end, once a partner has been chosen, the company should use its power for convening meetings, opening doors and raising money to help achieve success and it should participate actively in progress assessment as well as problem-solving.

## 5.3 Managing Philanthropic Projects

### 5.3.a Monitoring development and outcomes

Philanthropy is not just making donations in response to natural disasters or government directives. If the goal is to be a good corporate citizen and provide meaningful benefits to society, a company needs a clear, focused, long-term strategy. That includes:

#### Oversight of progress

A MNC should respect the independence of its partners while at the same time taking an active interest in project support. That process can include sharing its expertise and managerial tools, such as planning, decision-making, conducting and coordinating projects, as well as problem-solving and budget control. These approaches should be embedded throughout the process of project management.

#### Risk management

Like commercial projects, a philanthropy project might encounter risks too. Assist partners to ensure potential risks have been identified and mitigated wherever possible. MNCs have an important role in the process to ensure key objectives are met and potential risks are minimized in China. To achieve that, MNCs need to:

- Familiarize with local issues, cultures and customs to diminish risks of dissatisfaction caused by misunderstanding.
- Make cash flow dependable to avoid interruptions of work. Chinese organizations may not have the reserves to cover delays or shortfalls and are careful because fundraising has been unstable, as

corporate philanthropy is still developing in China.

- Chinese authorities are sensitive about political issues such as civil rights. Make sure partners are aware of appropriate regulations and guidelines; consult local authorities and seek permission where necessary.

### Project evaluation

The company should have an evaluation process to ensure that donated money is used for the intended purposes and used effectively. The best methods involve recipient organizations, so that trust is built and best practices are modeled. All partners are committed to success; they are investors in the project together; they should work together to track its activities on a regular basis as follows:

- **Outcomes** refer to benefits resulting from the philanthropic project, which are measured against goals (e.g., percentage of reduction in poverty, or increase in green space).
- **Outputs** are the direct products of a philanthropic project, measured by quantity of actual work that was accomplished (e.g., the number of beneficiaries, or the number of community services provided).
- **Social return on investment (SROI)** is an indicator that evaluates economic effects of social benefits created by an initiative (Council on Foundations, 2009).

However, it is important to recognize that not all valuable projects return quantitative results over the short term. For example, training teachers to teach children to be responsible adults is a worthy endeavor but won't produce the same measurable, short-term results as children removing debris from a fish-bearing creek. It is the equivalent of research and development *versus* production: both are essential to long-term success.

### 5.3.b Transparency

Transparency in corporate philanthropy will exert considerable positive influence on both donors and grantees. Disclosure of goals, practices, problems and success is important to achieving ongoing improvement and earning public trust. If a company chooses to support one primary issue or only makes donations in their operating communities it is important to reveal the criteria for decision-making, or at least to assure stakeholders that benefits to society are at least as important as public relations or marketing.

Transparent philanthropy requires self-regulation to ensure that the company or the company-NGO partnership is serving the public good effectively and positively interacting with local authorities, and communities as well as the general public in China. The following factors are worth consideration:

- Transparency enables a project to be accountable to the people affected, which in turn will strengthen self-regulation and provide inner motivation to enhance the quality of the project.
- Transparent funding demonstrates the responsibility of donors and the credibility of the recipients.
- Meanwhile, transparency means information sharing and dialogue between NGOs, governments, citizens and the companies, which are invaluable for civil society development in China.

Overall, transparent management will help a company to gain feedback and improve mutual understanding with other stakeholders in China, which in return will benefit the company immensely in

reputation and effectiveness. MNCs can build a reputation for philanthropic transparency in China through

- news conferences or project launch events, which draw attention from local governments, media and community groups,
- regularly posting information on corporate and NGO partners' websites, and
- sharing information through blogs or microblogs, which will provide information far more efficiently to a much broader audience.

## 6. Find and Work With Reliable and Capable Chinese NGO Partners

### 6.1 NGOs in China

Due to China's unique economic, social and political context, Chinese NGOs are different from their western peers. The most distinguishing characteristic is their closer relationship with government. According to China's *Regulations on the Registration and Administration of Social Organizations*, a NGO is required to get formal approval from the responsible government agencies before registration and operation. After its establishment, NGOs always operate under the supervision of authorities, to whom a NGO must report annually in order to renew its registration. This subjects NGOs to extraordinary government influence, as activity reports, budgets and future plans must be submitted as part of the ongoing approval and monitoring process.

Recently, a series of reforms has been proposed in regulatory policies for NGOs in a few Chinese cities, but the overall situation remains unchanged for the foreseeable future.

Based on the NGO's background, we can divide Chinese NGOs into two major categories: Government-organized NGOs and independently organized NGOs.

**Government-organized NGOs (GONGOs)** are large, national-level organizations, predominantly funded by government. Therefore, although a numeric minority, they benefit from substantial resources and considerable societal influence.

Often GONGOs have current or former government officials as their directors. However, in recent years, the Chinese government began to encourage NGOs to seek independence in their finances, personnel, and activities. In general, the government will no longer finance new GONGOs, although its support and influence over existing ones will continue.

GONGOs may be viewed as good potential partners because of their networks and resources. Take an education project for example: MNCs may have no idea about the Chinese youth education system. Therefore, they may choose to contribute by donating to the China Youth Development Foundation (CYDF) and let it distribute the money to poor students or implement projects through networks that spread across China. To MNCs, working with GONGOs may help them get started quickly and establish relationships with government. However, GONGOs generally have much higher administrative costs and may introduce unwanted political associations; these partnerships may be seen by domestic and international stakeholders as too cozy with government.

**Independently organized NGOs** in China could also be classified as grassroots NGOs, as in western countries, and they have developed rapidly along with the awakening of civic consciousness. They generally are more autonomous than GONGOs, raising funds on their own initiative from the public, business, foundations and other sources. While most grassroots NGOs have modest funding and staff, they typically enjoy greater public support, including volunteers. They usually operate in the areas of environmental protection, social services, women's rights, participatory governance and the like.

Grassroots NGOs are developing fast; they are more flexible and efficient and are well connected to local communities. Therefore, these grassroots NGOs can operate more effectively with public groups on addressing current issues in a specific geographic area. However, some of them may be less experienced and require some additional mentoring as they develop their capabilities in certain operational areas.

Nevertheless they do typically have experience in the field with volunteers and have more independence and inclination to coordinate with companies. With the help of booming social networks, such as Weibo (a Chinese microblog platform with over 320million users all over the world), working with grassroots NGOs is likely to achieve much more in the near future.

## 6.2 How Do Chinese NGOs Look Upon MNCs as CSR Practitioners?

### 6.2.a Resource providers

NGOs have the energy, community connections and expertise to help communities address social and environmental issues, but they need sufficient resources to develop and implement programs and their fuller capacities. MNCs have the means to support NGOs with funds, skill development and materials. In turn, MNCs need the help of NGOs' to improve local relationships and to respond to community needs and concerns. Therefore companies and NGOs can be good complementary partners to each other.

Human resources are also important for NGO development. Hence, MNCs can provide valuable HR support such as volunteers and experts to be a part of the cooperation with NGOs. This, in turn, further enhances local relationships.

### 6.2.b Business skill developers

The inexperience of some NGOs in China, and in some cases their underdeveloped management skills, can create misunderstandings, which can be viewed as a lack of accountability or insufficient commitment to achieving results. Unfortunately, this misconception has hindered business-NGO cooperation. It is particularly unfortunate, when such cooperation can be effective and beneficial for both parties. Corporations have the capacity to assist NGOs to improve important skills, such as financial management, information technology, and strategic planning. Such capacity building is mutually beneficial, essential to building stronger institutional infrastructure (Yamamoto, 1999) and vital to making continuous progress on current projects.

### 6.2.c Prestige and credibility enhancement

Typically, NGOs are the main performers of cooperative CSR projects. However, both NGOs and companies are responsible for the partnership. Therefore, donor recognition, and the credibility and

ultimate success of a program, are enhanced when MNCs utilize their expertise, relationships and business capacities to assist their NGO partners.

### **6.3 Benefit From Working With NGOs in China**

Consistent with the belief that CSR strategy in China will be more effective if locally relevant, MNCs should seek partnerships with domestic NGOs, particularly in regions where they have branches. NGOs can assist their business partners' CSR strategy by providing more accurate knowledge of local issues and needs as well as ensuring that projects meet local expectations and requirements.

Working with local NGOs provides many benefits, including the following:

#### **6.3.a Enhancement of CSR Initiatives**

Most NGOs embed themselves in their operating communities and pay close attention to local issues, needs and relationships. NGOs have the skills, knowledge, connections and experience to recognize and respond to issues of special importance, capacities often lacking in a MNC.

Therefore, through cooperation, a company is able to strengthen its CSR initiatives through NGO expertise in fields such as medical service, special education, the environment, psychological guidance and volunteer management. Sometimes, even without such expertise, local NGOs have better access to local resources and support for the projects.

#### **6.3.b Expanding the influence of CSR vision**

CSR projects with NGO engagement will be more credible and influential. Since NGOs can help organize and implement CSR projects effectively and successfully, the tangible results will draw positive attention from the public and local officials. Simultaneously, the corporate CSR vision can spread within and beyond the region, and corporate image and credibility will be enhanced. Local NGOs also can contribute to the post-project management and publicity through their extensive local connections. It's better for others to throw you a bouquet than to pat yourself on the back.

#### **6.3.c Strengthen relationship with local community**

Most NGOs have very good relationships with local communities and enjoy greater public trust. Partnering with local NGOs on CSR provides MNCs the opportunity to show they care about local people and communities and a chance to contribute to solutions for important local problems. In return, companies will build and enhance their relationship with local residents and accumulate more credit from investing in projects that produce practical benefits.

### **6.4 How to Find the Right NGO Partners in China**

#### **6.4.a Criteria for choosing good NGO partners**

Integrity and credibility, capacity and local relations are the major criteria for a good NGO partner. A MNC can trace the history of its potential NGO partner by searching for information from the Internet, local media coverage and the NGOs' reports, and seeking feedback from government, the public and the NGO's former partners. More specific suggestions are listed below:

**Integrity and credibility** can be assessed by checking the NGO’s transparency level on aspects of fund use, decision-making, organizational structure, reporting and the use of a self-evaluation process.

**Capacity** of a NGO can be estimated from its innovation in programming, effectiveness of service delivery against objectives, efficiency of fund use, and impact of the outcomes. However, it is important to note that capacity can and should be built, and integrity and credibility are paramount.

**Local relations** refers to the relations a NGO maintains with its constituents, including residents, local community groups and associations, government, media and other social groups. Good local relations can be measured by public survey, peer review and on-the-ground assessments.

**6.4.b Where to find reliable information about NGOs in China**

(See Table 7 and Table 8 below)

**Table 7: Sources of NGO Information**

Name	Links
<b>Directory of International NGOs</b>	<a href="http://www.chinadevelopmentbrief.com/dingo/">http://www.chinadevelopmentbrief.com/dingo/</a>
<b>China NPO</b>	<a href="http://www.chinanpo.gov.cn/">http://www.chinanpo.gov.cn/</a>
<b>China CSR Map</b>	<a href="http://www.chinacsrmap.org/">http://www.chinacsrmap.org/</a>
<b>China Development Brief</b>	<a href="http://www.chinadevelopmentbrief.com/">http://www.chinadevelopmentbrief.com/</a>
<b>List of NGOs in PRC</b>	<a href="http://en.wikipedia.org/wiki/List_of_non-governmental_organizations_in_the_People's_Republic_of_China">http://en.wikipedia.org/wiki/List_of_non-governmental_organizations_in_the_People's_Republic_of_China</a>
<b>List of Charities in PRC</b>	<a href="http://en.wikipedia.org/wiki/List_of_charities_in_the_People%27s_Republic_of_China">http://en.wikipedia.org/wiki/List_of_charities_in_the_People%27s_Republic_of_China</a>

Table 8: A Brief List of Major NGOs in China

FULL NAME	OFFICIAL LINKS	FIELDS
<b>GONGOs</b>		
<b>Red Cross Society of China</b>	<a href="http://www.redcross.org.cn/">http://www.redcross.org.cn/</a>	■ Health
<b>China Social Welfare Foundation</b>	<a href="http://www.cswef.org/">http://www.cswef.org/</a>	■ Poverty alleviation
<b>All-China Federation of Trade Unions</b>	<a href="http://www.acftu.org">http://www.acftu.org</a>	■ Labour
<b>China Children and Teenagers' Fund</b>	<a href="http://www.cctf.org.cn">http://www.cctf.org.cn</a>	■ Children ■ Education
<b>China Environment Protection Fund</b>	<a href="http://www.cepf.org.cn/">http://www.cepf.org.cn/</a>	■ Environment
<b>China Women's Development Foundation</b>	<a href="http://www.cwdf.org.cn">http://www.cwdf.org.cn</a>	■ Women
<b>All-China Women's Federation</b>	<a href="http://www.women.org.cn/">http://www.women.org.cn/</a>	■ Women
<b>China Foundation for Poverty Alleviation</b>	<a href="http://www.fupin.org.cn/">http://www.fupin.org.cn/</a>	■ Poverty alleviation
<b>Individual Organized NGOs</b>		
<b>New Philanthropy Partners</b>	<a href="http://www.nppcn.com/">http://www.nppcn.com/</a>	■ Education ■ Community Development
<b>Inno Community Development Organization</b>	<a href="http://www.theinno.org/">http://www.theinno.org/</a>	■ Community Development
<b>Global Village of Beijing</b>	<a href="http://www.gvbchina.org.cn/">http://www.gvbchina.org.cn/</a>	■ Environment ■ Education
<b>Institute of Contemporary Observation</b>	<a href="http://www.ico-china.org/">http://www.ico-china.org/</a>	■ Labour ■ Education ■ Community Development
<b>Friends of Nature</b>	<a href="http://www.fon.org.cn/">http://www.fon.org.cn/</a>	■ Environment
<b>FuPing Development Institute</b>	<a href="http://www.fdi.ngo.cn/">http://www.fdi.ngo.cn/</a>	■ Poverty alleviation ■ Education ■ Community Development
<b>Labour Education and Service Network</b>	<a href="http://www.lesnhk.org/">http://www.lesnhk.org/</a>	■ Labour
<b>Shining Stone Community Action</b>	<a href="http://www.scca.org.cn/">http://www.scca.org.cn/</a>	■ Participatory Governance
<b>Institute of Public &amp; Environmental Affairs</b>	<a href="http://www.ipe.org.cn/">http://www.ipe.org.cn/</a>	■ Environment ■ Supply Chain
<b>Global Environmental Institution</b>	<a href="http://www.geichina.org/">http://www.geichina.org/</a>	■ Environment

## 6.5 Major CSR Topics of Concern to Chinese and Local NGOs

NGOs in China most actively concentrate on environmental protection, poverty alleviation, education support, protection of disabled people, welfare for the aged, women's rights, migrant workers and families, social relief, participatory governance and community development (Wang & Jia, 2000). Some of the popular areas are listed below:

### 6.5.a Environment

Along with the process of industrialization, environmental problems such as air pollution, water contamination and heavy metal pollution have received increasing attention. Environmental protection has become one of the most active areas for NGOs in China. It has also received support and appreciation from government and the public. Some NGOs promote public education and involvement in environmental protection, through various social and educational activities, while others directly cooperate with enterprises to reduce pollution and achieve improvements in resource use and waste disposal. Many groups work with local organizations, including business, to ensure that development is environmentally responsible.

One notable organization is Friends of Nature (FON). Founded in 1995, it was China's first, and remains its leading environmental organization, admired and sought by many others for advice and mentoring. FON is notable for its willingness to work with business and government, and doing so with integrity. Another, the Institute of Public and Environmental Affairs (IPE), is an example of how a capable and dedicated staff, given the opportunity and support, rapidly can build an effective and widely respected organization. IPE is a leading voice for cooperation to mitigate and prevent environmental impacts.

### 6.5.b Poverty alleviation

Despite its fast development, China still suffers from considerable poverty, especially in the western provinces and in rural areas. Many local and international NGOs are dedicated to poverty alleviation, which is also a government priority. Current projects emphasize safe drinking water for humans and agriculture, housing, training courses for rural applied technology, assistance to improve the health and welfare of rural women, children and the impoverished, and disaster relief.

### 6.5.c Education

Many NGOs work to fund poor students, build schools, train teachers and improve teaching and library facilities. Their work has made great progress in ameliorating poor educational conditions in rural areas and enjoys tremendous popularity with both local authorities and the general public. One of the most successful and influential education projects in China is the Hope Project, which helps school dropouts across China to return to school and complete at least a nine-year compulsory education.

### 6.5.d Participatory Governance

In China, participatory governance is new and growing. People want to be involved in decisions affecting their lives. Some pioneering NGOs, such as Shining Stone Community Action, are working with local residents and authorities to promote building local capacity with regard to participatory problem solving and programs to improve social development and the environment. Shining Stone's pioneering work for participatory governance has gained much positive attention from government, communities, local residents, funders, international leaders and others.

## 6.6 How to Coordinate NGO Expectations with MNCs' CSR Strategies

### Aligning goals

Cooperation on CSR issues requires mutual trust and respect even in the face of different approaches and occasional disagreement. MNC and NGO partners need to understand each other's missions, objectives and operating principles, and to address any concerns honestly. In this way, both parties can understand and coordinate different styles of communication, management and reporting, while respecting each other's visions, goals and interests as well as strengths and weaknesses. This approach provides the best opportunity for effective, productive, ongoing partnerships. The key to successful projects is a shared commitment based on agreed-to milestones and outcomes.

### Leveraging strengths & weaknesses between partners

The following approaches can help MNCs to enhance coordination with NGO partners:

- Identifying expectations, limitations and different approaches among the partners, prospects for success as well as opportunities for mutual learning;
- Taking actions to help NGOs to professionalize, including training NGO staffs in accounting, auditing, finance, communications and HR management, as well as effective revenue-generating strategies;
- Respecting NGOs' input with respect to CSR projects and adopting good ideas; and
- Building a cooperative team to coordinate the partnership.

## 6.7 Principles for Cooperation with NGOs

### Mutual Trust and Respect

Mutual trust and respect provide the basis for any successful business-NGO partnership. Companies undoubtedly are the dominant partners in size and resources. Recognizing that they are the tiger in the room, companies should take care not to use funding power to dominate the relationship. NGOs bring significant assets to the cooperation, and trust is developed through a process imbued with mutual respect, cooperation and reliability.

### Independence

The companies and NGOs come together for a specific, shared purpose. However, it is important to respect each party as an autonomous entity with individual goals and missions. Neither is responsible for the partner's actions outside their collaboration. Respect engenders trust and, in turn, positive working relationships. Keeping each other informed is part of that process, along with avoiding interference with each other's organizational decision-making and operations.

### Communication

Communication is fundamental to enhancing mutual understanding between partners. For both companies and NGOs, regular and transparent communication is the "connecting thread" of the cooperation on goal setting, project design and implementation, as well as review and revision of goals and activities. Companies should respect local communication practices, language use, and culture to avoid unnecessary misunderstandings and the consequent tensions.

### Reciprocal Transparency

All parties must commit to reciprocal transparency, while always respecting the boundary of confidentiality. Both sides of the partnership should operate within commonly agreed areas which should be transparent, including significant factors such as goals, reporting, accounting, methods and results.

### 6.8 How to Evaluate the Partnership

The cooperation between MNCs and NGOs must be results-oriented so that it is assessable and produces meaningful results. Evaluating the partnership will help both companies and NGOs improve strategies, methods and skills, and it can be carried out by reviewing several important features, as follows:

- **Effect** refers to the direct influence of the companies' CSR strategy on the degree of benefit to target groups, partners, local governments and communities.
- **Coherence** refers to the strategies, approaches, timelines and outcomes, and whether they are in accordance with the scheduled plan and expectations.
- **Communication Efficiency** refers to how well both parties understand and communicate with each other and work together to solve problems and seize opportunities effectively and efficiently.
- **Resource efficiency** refers to how well the funding is being used for the intended purpose and whether the expected results are being achieved.
- **Sustainability** refers to whether a partnership creates lasting results and skills beneficial over the long term, and which can be duplicated by other organizations.

#### A Dose of Reality and Honest Self-Assessment

Company partners often talk about partnerships and working together and then busy schedules and other priorities take over, sometimes leaving NGO partners confused, disappointed and perhaps stalled in their efforts, wasting precious time and resources trying to re-activate collaboration.

For corporate partners, it is important to recognize and encourage the leadership of your NGO partner who, after all, is most likely responsible for implementation and results. A hands-off approach is fine, and maybe more effective, but it is important to show interest and follow through on commitments, such as introductions for and promotion of the project -- both are helpful to achieve success and encourage others to follow your leadership.

## 7. Upgrade CSR Reporting

The past five years have witnessed rapid development of CSR reporting in China. By 2011, over 1,000 companies had released a CSR report, which, to a large extent, can be attributed to encouragement from the Chinese government and public. Other stakeholders also have paid more attention to CSR reporting; stock exchanges, academic institutes and trade associations have promoted CSR reporting and have set higher standards for the quality of CSR reports. Others, including investors, NGOs and the media, after acquiring a better understanding of CSR reporting, have come to use CSR reports to learn about and monitor companies. Generally speaking, CSR reporting and improving corporate transparency

have become widely accepted in China as an important aspect of CSR performance and an effective method for local stakeholder involvement.

The CSR reporting efforts of MNCs in China can be dated back to 1999, when Shell (China) released the first public sustainability report in China. Following a decade of development, more than 100 MNCs released a CSR report in China in 2011 (SynTao, 2011).

In the beginning, when the few CSR reports released by local companies were generally substandard in format and content, the CSR reports released by MNCs were nonetheless helpful and motivational for local Chinese companies. With the development of CSR reporting in China, however, the quality of the CSR reports released by Chinese companies has been significantly improved, with a number of CSR reports reaching a world-class level. Comparatively, despite the once higher quality of CSR reports, MNCs' CSR reporting efforts seem to be stalled or declining and playing a reduced role in promoting local stakeholder involvement; moreover, because a large number of MNCs do not pay sufficient attention to the development of CSR reporting in China, the following problems have been identified:

- **The reports are not fully localized.** Most MNCs compile their CSR reports according to international standards or guidelines such as GRI's Sustainability Reporting Framework. However, the international standards may not cater to the needs or expectations for local disclosure. What's worse, due to significant regional differences, some indicators of international guidelines do not apply or transfer well to China. Therefore, while reports may satisfy international audiences, for China they are deficient. Moreover, global reports can be superficial with respect to specific countries.
- **The reports fail to reflect the concerns of local stakeholders.** CSR reports serve as an important channel of communication between companies and their stakeholders. Unfortunately, the CSR reports of some MNCs have neither clearly identified and responded to their Chinese stakeholders nor fully responded to key local issues. Consequently, these CSR reports have been ineffective in facilitating communication between the companies and local stakeholders and are not well received.
- **Lack of key quantitative indicators.** Some CSR reports released by MNCs in China mainly disclose the description of their operations and policies in China, without a sufficient disclosure of quantitative indicators or results. Therefore, those CSR reports are insufficiently informative about activities in China. In particular, when their regional reports for China are compared to the global reports of the parent companies, the lack of quantitative indicators may arouse suspicion that the companies use a double standard regarding effort and disclosure.

**Accordingly, the following approaches are proposed for MNCs to improve their CSR reports in China:**

- **Reports should respond fully to local stakeholder's concerns.** When compiling CSR reports, MNCs should follow the materiality principle to consider local stakeholders' interests and concerns and accordingly make focused responses in their reports. For example, the Chinese government is particularly concerned with the following information in a CSR report:<sup>30</sup> *“operation featuring*

<sup>30</sup> The eight items about CSR performance stipulated by the State-owned Assets Supervision and Administration Commission (SASAC) in the *“Guiding Opinions for Central-government Enterprises Implementing Social Responsibility”*.

*compliance and honesty, efforts to increase profitability, commitment to improving the quality of products and services, efforts to save resources and protect the environment, promoting independent innovation and technological advancement, guaranteeing safe production, safeguarding employee rights and involvement in social welfare.”*

- **Key disclosure indicators should be localized.** When adopting international standards, MNCs should localize key indicators by taking into consideration local economic, environmental and social circumstances. They should also integrate regional features into their disclosure indicator system. For example, for the indicator of community construction, MNCs should include more contents about efforts to promote the development of rural areas in China. Moreover, for more specific information, they can refer to the disclosure guidelines and standards for Chinese CSR reports (see table 9).

**Table 9: Chinese CSR Reporting Guidelines and Standards**

Category	Guideline
Government	SASAC Guideline on State-Owned Enterprises
	MEP: Guideline on Corporate Environmental Reporting
	MEP: Environmental Information Disclosure for Listed Companies
Academy	CASS-CSR
Stock Exchange	SSE Directive on Environmental Disclosure
	SSE Directive on CSR Reporting
	SZSE Directive on CSR reporting
Association	CSR-GATEs
	CSR Guideline of China Federation of Industrial Economics
	CBRC CSR Guideline on Chinese Banking Sector

- **Reporting companies should obtain the recognition of key local stakeholders.** During and after the compilation of CSR reports, MNCs should use stakeholder seminars and reporting sessions to facilitate stakeholder involvement and approval. Improved communication and involvement can help the stakeholders to improve their understanding of the company’s efforts, problems and achievements, and more effectively provide their help to find solutions. At the same time, companies can collect stakeholder feedback to improve CSR reports and use CSR reports to interact and communicate with local stakeholders.
- **Reports should clearly show progress.** Companies should not only undertake self-evaluation, but also show the result in their CSR reports, so that the stakeholders can see the company’s achievements, gaps between goals and results, and learn why some goals haven’t been achieved and offer insights into improvements. Bombardier’s sustainability report (below) is a good example of this approach.

## RESOURCE AND ENVIRONMENTAL MANAGEMENT

### WHAT WE SAID WE'D DO IN 2010-11<sup>1</sup>

- Further enhance our centralized HSE Information Management System (IMS), integrating HSE data collection and site-specific management programs and tools
- Begin monitoring new environmental indicators (waste valorization index, use of volatile organic compounds [VOC] and number of environmental incidents) across Bombardier
- Enhance existing environmental reporting using these new indicators to better fulfill Global Reporting Initiative (GRI) requirements
- Launch an annual Green Fund project campaign across the company to finance environmental efficiency initiatives
- Establish site-specific CO<sub>2</sub> emission reduction targets for our Transportation sites

### WHAT WE DID<sup>1</sup>

Progress 

- Implemented new management application in our centralized HSE IMS
- Began to monitor new environmental indicators to broaden the scope of future reporting
- Launched the 2011 Green Fund campaign and implemented a number of Green Fund projects
- Defined site-specific GHG emission reduction targets for the most significant locations and monitored progress

### WHAT WE'LL DO IN 2012

- Implement 2012 Green Fund projects, launch 2013 Green Fund campaign, and support best practices across organization
- Develop dashboard with strategic indicators for our centralized HSE IMS implementation in 2013
- Review and improve Aerospace's Energy and Carbon Management Strategy
- Eliminate redundant data management at Transportation to satisfy needs of specific system standards
- Identify optimum targets for water consumption and waste generation at Transportation and establish related action plan studies at local level

**Chart 6:** Showing progress in CSR Report

Resource: Bombardier CSR Report 2011, page 45, from

[http://csr.bombardier.com/pdf/report/CSR2011\\_Report\\_en.pdf](http://csr.bombardier.com/pdf/report/CSR2011_Report_en.pdf)

## RECOMMENDATIONS FOR CSR IMPROVEMENTS

- **Improve HQ-branch Cooperation**
  - Building collaborative CSR department structure.
  - Strengthen lines of communication between HQ and branches.
  - Improve personnel network and participation.
- **Advance CSR through Human Resources**
  - Comply with high employee-related standards.
  - Provide career development opportunities.
  - Develop a CSR culture deeply rooted in day-to-day work of employees.
- **Conduct self-evaluation regularly for CSR improvements**
  - Launch self-evaluation annually or regularly over a relatively longer term.
  - Use questionnaires or key performance indicators.
  - Recommended tools include: UNDP-CSR self-assessment Handbook, Human Rights Impact Assessment and Management, Impact Code, SIGMA Toolkit, etc.
- **Strengthen community engagement**
  - Assess and manage your community impact.
  - Find the right cause for community engagement.
  - Choose right way for community engagement in China: direct financial support, working with NGOs, setting up community foundations and employee community engagement initiatives.
- **Improve philanthropy**
  - Understand philanthropy in China – *“Misfortune tests the sincerity of friends.”* Value both disaster and non-disaster donations.
  - Making donations through government authorized channels.
  - Choose the right way to do philanthropy in China: direct giving, corporate volunteering and venture philanthropy.
  - Monitor philanthropic projects on progress, risk management and project evaluation.
  - Ensure transparency of philanthropic projects.
- **Working with NGOs in China**
  - Distinguish between GONGOs and grassroots NGOs in China.
  - Criteria for good NGO partners: integrity, credibility, capacity and local relations.
  - Popular CSR topics for NGOs in China include environment, poverty alleviation, education and participatory government.
  - Principles for successful business-NGO partnership are mutual respect, agreed goals, independence, regular and open communication, and reciprocal transparency.
  - Evaluate partnerships on effect, coherence, communication efficiency, resource efficiency and sustainability.
- **Upgrade CSR reporting**
  - Fully respond to local stakeholders’ concerns in the report.
  - Localize key disclosure indicators.
  - Obtain recognition of key local stakeholders.
  - Show progress clearly in the report.

## FINAL THOUGHTS

Companies successful over the long-term, motivated by ethical and sound business principles, operate with social and environmental responsibility as core values. They work with employees, customers, investors, partners and governing bodies to create shared value, recognizing that building healthy and sustainable communities best serves both society and business.

Exploiting low standards for environmental, health and safety may bring short-term economic gains for some, but harm public health, social justice and the environment, imposing huge costs on society. Those companies responsible for these harmful practices are increasingly being exposed and very likely will lose public trust, goodwill and market share as a consequence.

Case studies presented in this guide focus on the positive, offering examples of companies whose CSR strategies and sustainability programs have increased both corporate and societal benefits that must be the goals of CSR and business. Laggards and fence sitters are increasingly subjected to public and government scrutiny. Such behavior does not earn accolades or exemplify leadership.

Every society reaches moments of reckoning and China is no exception. Seriously contaminated food, water and air and the consequent damage to public health and the environment have led to rising social unrest and political action. Demands for a higher level of performance on labour, health, environmental stewardship and social development are growing louder and are resulting in concrete actions by government and the public. It would be prudent to respond proactively to these calls for action.

Each company, therefore, has its own decisions to make: to continue business as usual, to risk being compelled to change and therefore left behind, or to align its business strategy and sustainability outcomes to meet the needs of society. Such forward-looking companies will earn far greater opportunities to enhance their competitiveness, brand approval and market share by actively pursuing improvements in overall conditions in the communities where they operate and in the world within which they and their stakeholders must live and work.

This publication may have been written for MNCs operating in China, but it is much more. It is a blueprint for success for multinational or state-owned enterprises in China or anywhere in the world. Our hope is that senior business leaders, as well CSR proponents, will find this guide useful in shaping more effective business strategies and practices based on a sound understanding of CSR and a renewed commitment to work in partnership with society to achieve a more sustainable future. Our future depends not only on economic success, but also on enhancement of the social, educational, cultural and environmental assets that make economic successes and bright futures possible.

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## RESOURCES

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<http://www.chinacccc.org>

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*Harmony and SynTao have meticulously collected experience and information in this guide, vital to practitioners who need to understand and implement effective CSR in China and throughout their operations. A guide such as this did not exist so they had to create it. In doing so, they have provided CSR professionals and business leaders with a map for how to make CSR an integral part of their company's strategic business model and success.*

-- **Bill Valentino**, Professor and Deputy Director of the China Institute for Social Responsibility, Beijing Normal University  
Adjunct Professor at Tsinghua University's Centre for International Communications

*This Guide is a comprehensive study, covering a broad range of topics from the development of CSR and legislation across industries and jurisdictions as well as rising expectations. More than that it is helpful for CSR professionals who hope to understand CSR in China; and for people like me, who have witnessed the development of CSR in China and want to review what we are proud of, where we can do better and most importantly what's next and how can we respond?*

-- **Karen Guo**, Chair of Business Sustainability Committee, American Chamber of Commerce in China

*I recommend Harmony Foundation's timely Corporate Social Responsibility (CSR) Guide for Multinational Corporations in China. It is a blueprint for successful collaboration among multi-national corporations, governments and not-for-profit organizations for environmental protection and social development. It is a practical whole systems design for understanding CSR context in China, developing and executing society-oriented CSR strategy in China, and worldwide. The guide details beneficial outcomes from an authentic commitment to CSR. These include an improvement to: reputation and brand, market share (sustainable economic gains), supply chain management, shareholder perception of risks, worker safety, societal health, and environmental protection. The authors convincingly articulate that a strong CSR program is a win-win-win for corporations, society and the planet.*

-- **Ted Treanor** is a passionate CSR practitioner, an innovation pioneer and thought leader whose career crosses several industries: environmental, clean technology, e-commerce, digital publishing, social commerce, and regenerative design and development for the built environment. Corporate leadership roles have included: Earth Care Technologies, Rosetta Solutions, and Global Sustainable Impact LLC. Board of Directors role: Northwest Ethics Institute, Habitat for Humanity.

*There is no doubt that CSR is worldwide trend, including China. Many multinational corporations (MNCs) now follow this trend and the best integrate CSR into their core business. Although international CSR guidelines and standards such as GRI Guideline and ISO26000 provide a common framework, it is extremely important for MNCs to localize their CSR strategy in host countries and local regions. How? The CSR Guide for Multinational Corporations in China is an excellent example. It comprehensively reviews China's CSR development over the past few decades and situates practices within China's particular social and political context. MNCs are advised in practical terms how to strengthen cooperation between headquarters and branches, improve community engagement and work with capable NGO partners. Cases involving MNCs in China are included to give more first-hand information. It is a must-read for CSR managers of MNCs in China and their leadership.. I am proud that SynTao is part of this great publication.*

-- **Peiyuan Guo**, General Manager of SynTao Co., Ltd.

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