

# China gets serious about CSR

Many doing business in or with China tend to take the Milton Friedman view of life, that 'the business of business is business' and that corporate social responsibility (CSR) is an indulgent distraction. This is a mistake, writes **Liza Lort-Phillips**. The environment is changing, companies need to be aware, and there are practical steps that they should be taking.

AS IF BUSINESSES didn't have enough to think about in China, and now corporate responsibility to worry about? And it is not just the usual suspects that will be after Western businesses – raging NGOs and rogue journalists from home markets accusing them of complicity in human rights abuses and of offsetting carbon emissions onto China. It is a rather more powerful and long-term presence: the Chinese government itself, and alongside it, a growing generation of civil society activists, a media hungry for tales of corporate misdemeanour, and an increasingly 'rights-conscious' citizenry.

Against a backdrop of untold environmental damage, a steady rise in labour disputes (300 per cent rise over the past five years), an officially recorded 87,000 'mass incidents' in 2007, and a string of high-profile industrial accidents, it is perhaps no surprise that China has begun to question the viability of the economic model that has served it so well for so long. For the truth is, it is paying the price of 30 years of centrally planned economics and a double-digit growth that has been the envy of the world.

Playing host to the Olympics this year should mark the high point in China's career as the world's superpower-in-waiting. But plenty of reputational hazards lurk in the wings. Becoming a global power has brought with it global expectations.

*BP has significant business in China, entirely with Chinese companies as joint venture partners, in relationships built up over 30 years and cemented by an emphasis on being "the local company". BP says, "Corporate responsibility is built in to the way we operate, not an add-on option. For instance, our manufacturing sites employ and train local people, they are our neighbours, we supply their communities and markets."*

How a Chinese mining company treats its Zambian workers is no longer just a 'local difficulty' but a global concern. Overtaking the US as the largest producer of CO2 emissions demands of it a global response. And the abject misery of slave and child labour found in a brick kiln last year is a sharp reminder to the world of how many still suffer to make what 'China Inc' is today.

Having unleashed the might of capitalism and enterprise, the call for corporate responsibility is, ironically a vindication of the government's own political legacy. That is, capitalism in its raw form cannot be trusted, and must be corralled and educated into sharing the broader needs and burdens of society – either as partner, or scapegoat.

## Entering the mainstream

The past two years has seen the language of corporate responsibility formally enter mainstream political parlance in China.



There is barely a government department that has not now published its own statement, policy, guidelines or principles on CSR. Rarely a mainstream paper does not devote growing column inches to the ranking, naming and shaming of companies on their social and environmental performance. Cynics may roll their eyes. Indeed there is a fair share of spin and plenty of less altruistic agendas at stake. But there is substance, too.

When protests involving tens of thousands of citizens, armed only with mobile phones and online blogs, start forcing the closure of profitable (but polluting) factories, block the approval of large-scale investments in Xiamen and accuse government and industry of incompetence, conspiracy and cover-up over an oil spill in Heilongjiang, it is clear that there is more at stake than just short-term reputational embarrassment.

The emergence of new legislation, guidelines and 'instructions' over the past year points to a genuine sea change in the way business is expected to engage on and respond to China's social and environmental challenges.

Key among these are the new Labour Contract Law, extending greater protection to workers, the State Council's State Assets Supervision and Administration Commission (SASAC)'s 'Instructing Opinions on State-Owned Enterprises Fulfilling Social Responsibilities' (which, amongst other things, expects SOEs to create CSR functions and report on impacts) and the draft Recycling Economy Law – with its focus on energy use, emissions, waste and water management.

While the detail, scope and enforceability of each are at varying stages of debate, the implications of all are clear. Businesses operating in China can expect to be more closely regulated, scrutinised, fined or incentivised on a whole range of social and environmental concerns.

Their publicity has also fostered a greater consciousness amongst workers, consumers, environmentalists and the media, each with their own growing sense of rights and interests at stake.

Emboldened by the government's support for anything that promotes energy efficiency protects or saves water or reduces pollution, the State Environmental Protection Agency (SEPA) has begun to take on powerful vested interests at national and local level – aided in this task by quasi-independent environmental groups such as the Institute of Public and Environmental Affairs (IPEA), whose web-based monitoring of polluting companies around China has 'named and shamed' 40 foreign firms (amongst several thousand) for air pollution violations, and another 280 for water violations.

While local enterprises are increasingly fair game, foreign ones often make bigger headlines and are generally a softer, and safer, target.

Several local governments have seen which way the wind is blowing. The perennial challenge of attracting investment and creating jobs becomes all the harder if your workers are on strike, your migrants on the move and your rivers and soil polluted beyond human use.

The Shenzhen Stock Exchange has recently issued its own set of CSR guidelines requiring companies to report on their impacts, and a number of provincial and municipal governments have begun to require stricter environmental preconditions for investment. Responsibility is becoming a competitive advantage.

**Business response**

There has been a mix of responses from business to this changing environment in China, ranging from pioneering and proactive, through to ostrich-like head in the sand. Retail and apparel companies such as Nike, Gap, Walmart and Tesco, forced into the spotlight in the early '90s with accusations of human rights abuses in their supply chains, have made measured progress towards developing social and environmental audit programmes, acknowledging the extent of their accountability and influence.

Others, such as Microsoft, BP (see photo caption), Vodafone and Coca-Cola, are developing longer-term or more focused

programmes and partnerships with local partners that speak to the concerns and priorities of local government and communities in which they operate (such as migrant workers, environmental education, water conservation and unemployment).

While commercial imperatives remain absolute for all, corporate responsibility is increasingly viewed as an integral part of their 'licence to operate'.

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A new generation of SOEs and Chinese firms are also signing up to CSR. The growth in the number of Chinese companies now producing CSR reports is one indication that the agenda has traction – albeit often narrowly defined, and largely self-serving – but nonetheless evolving.

As of May 2007, 26 companies in total had produced CSR reports, of which 17 were SOEs, eight foreign and one privately owned local enterprise. Big Chinese brands include companies such as Huawei, China Mobile, China Life, PetroChina and Lenovo. Two foreign companies, until recently frustrated by a lack of interest from their local Chinese partners to engage on questions of environmental management and social responsibility (not helped by minority equity positions), have in recent months been approached for their advice and guidance.

While it is fair to say that the current stage of corporate citizenship in China is still focused on roles as wealth creators and contributors to philanthropic endeavours, there is a growing realisation that good environmental and labour management can make financial sense, deliver competitive edge and deliver also often a better quality product or service.

A first generation of wannabe 'corporate citizens' in China will increasingly influence the broader debate.

Plenty of opportunities await those able to help China address its environmental woes – through technology, renewable energy and better resource management. Heavy polluters, generators of waste, or significant users of energy, agricultural, human or natural resources face greater risks and expectations. So, too, do those selling goods and services direct to Chinese citizens, who, increasingly concerned with their environment, health and safety, and empowered by their new found rights as property owners, expect more of businesses and their government. The number of pollution related lawsuits is rising by 30 per

cent a year and there has been a significant growth in public interest litigation (PIL), supported by environmental groups and widely publicised by media.

Pressures from home grow, too. British businesses sourcing or operating in China face growing demands for transparency and good environmental practice in their supply chains from their overseas customers. Companies such as Centrica, Vodafone, M&S, Unilever and BT have procurement policies and processes that increasingly expect these conditions of their suppliers as a contractual requirement.

It may seem like a daunting task, particularly for smaller and medium-sized businesses. But there is much to be learnt from those who have already started the journey. A sustainable China, and by association a sustainable business, is no longer just about economic growth. It is also about the social and ecological foundations on which future growth depends.

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| Five 'takeaways' for developing a responsible business in China |  |
|---|--|
| <b>1. Supply chain and environment</b>                          | <ul style="list-style-type: none"> <li>• Understand where and on whom your business has a material impact – if you don't someone else will!</li> <li>• Map and prioritise your risks; identify opportunities to save money, create value or protect your investment</li> </ul> |
| <b>2. Local stakeholder engagement</b>                          | <ul style="list-style-type: none"> <li>• Engage those that play a role in or are impacted by your business (government, communities, workers, farmers)</li> </ul>  |
| <b>3. Community investment</b>                                  | <ul style="list-style-type: none"> <li>• Consider a local community engagement strategy to protect your 'licence to operate'</li> <li>• Find local partners to help you deliver it</li> </ul>  |
| <b>4. Employees</b>   | <ul style="list-style-type: none"> <li>• Train and empower them on material CSR issues</li> </ul>  |
| <b>5. Government relations and a sustainable business</b>       | <ul style="list-style-type: none"> <li>• Go hand in hand: make sure you are a partner not a scapegoat</li> </ul>   |

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