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Corporate Responsibility and Sustainable Economic Development in China: Implications for Business



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ABOUT THIS PAPER

This paper provides a strategic briefing on the state of corporate social responsibility (CSR) in China. It seeks to inform companies, policy researchers, and stakeholders concerned with China's development and CSR more generally.

A note on terminology: "CSR" has become the most common umbrella term in China for the constantly evolving domain that includes the social, environmental, and economic impacts of business. For the purpose of this paper, CSR is treated as analogous with the international use of terms such as corporate responsibility and business sustainability.

The paper was written by Simon Zadek, Maya Forstater, and Kelly Yu. It draws on the authors' broader body of work, third-party research and data from official sources, companies, the burgeoning network of CSR researchers in China, and interviews with CSR practitioners.

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EXECUTIVE SUMMARY

China's rapid economic rise has led to social and environmental challenges that must be addressed to avoid weakening the nation's ability to sustain economic growth and development progress in decades to come. These challenges, such as water scarcity, pollution, labor conditions, and product safety, along with the need for improved governance and accountability, are widely acknowledged and figure prominently as targets for action in China's 12th Five-Year Plan (12 FYP).

The role of business in addressing these challenges is increasingly recognized and is reflected in the call for, and practice of, corporate social responsibility (CSR). In China, the term CSR covers a wide scope of issues that can also be described as citizenship and sustainability. It describes actions taken by businesses to provide benefits that either markets or governments have failed to deliver and to offset negative social and environmental impacts.

CSR in China has evolved rapidly beyond its roots in philanthropy and compliance. For large companies, CSR is increasingly a strategic concern, addressing issues such as employee management, product quality, governance, and human rights. Managing such issues, which affect the core business, can deliver strategic benefits for supply chain efficiency and security, innovation, product development, attraction and retention of talent, and investor confidence.

Drivers of CSR in China are also shifting toward becoming embedded in China's own global brand and way of doing business. Initially, pressures on multinationals for CSR tended to come from public interest groups and consumers in the West. However domestic Chinese pressure is rising. Chinese citizens are increasingly finding ways to express collective displeasure over perceived poor corporate practices. At the same time, Chinese businesses are raising the bar for competition as they work to meet international standards of responsibility as part of their strategy for moving up the value chain.

The most important driver in recent years has been the increasingly close relationship between CSR and public policy. The Chinese government has embraced CSR as a tool to help address social and environmental issues resulting from rapid but uneven economic transition. In an economy so influenced by the state, official endorsement of CSR standards, ratings, and indexes makes demonstrating performance against them a material factor in determining competitive advantage.

CSR will continue to evolve rapidly, with pressure from the state and, increasingly, from citizens. A significant dynamic to watch will be the interaction between pressures from the state and from citizens mobilizing, for example, through new social media.

The Shifting Landscape of CSR in China

Yesterday	What is changing?	Tomorrow
<p>CSR viewed by government as a foreign-imposed requirement with protectionist aims.</p>	<p>Government using CSR to encourage businesses to contribute to “scientific development” and a “harmonious society”.</p>	<p>CSR becoming a key factor determining competitive advantage for companies in China and for China in the global economy.</p>
<p>Focus on ensuring supply chain labor and environmental standards through codes of conduct and audit.</p>	<p>Recognition of the limits of audit approach.</p> <p>Tightening domestic labor and environmental laws and maturing of enforcement.</p> <p>Partnership and capacity building for labor and environmental compliance.</p>	<p>CSR in the area of manufacturing is more focused on building capacity for environment health and safety (EHS) and HR management as well as local enforcement of environmental and labor laws.</p>
<p>Concern that many international standards initiatives represent trade and investment barriers, intentionally or otherwise.</p>	<p>Cautious endorsement and adoption of international standards.</p> <p>Learning and referencing international standards to construct China’s CSR framework.</p>	<p>Development of national standards that are in practice increasingly harmonized with international standards.</p>
<p>Multinationals tended to roll out global CSR practices and signature programs, while state-owned enterprises have viewed CSR as a matter of accountability to government.</p>	<p>Growing and confident consumers, nongovernmental organizations, media, and other local stakeholder groups are making stronger demands on business responsibility.</p>	<p>Increasingly active and demanding consumers and civil society; developing and testing bottom-up grievance and redress mechanisms.</p>

The business case for CSR in China is to both secure a domestic license to operate and to help shape the global competitive environment to reward sustainability. Multinational companies are likely to face particular scrutiny for their social and environmental performance, and will be expected to demonstrate that they are contributing to China's national priorities. These include green growth, livelihood improvement, outward development into the West, and a general integration of Chinese businesses into global markets. At the same time, as China's influence in international markets and on the global policy stage increases, active engagement in CSR offers an opportunity to influence one of the most powerful forces shaping the landscape for global business and sustainable development.

In light of these challenges and opportunities, and the increasing complexity of doing business in China, all companies will need to strengthen their approach to CSR. Approaches need to be integrated with business strategy and responsive to evolving local concerns, pressures, and opportunities.

This will require upgraded capacity to develop, define, and implement "In-China-for-China" CSR strategies. CSR strategies in China can be supported by global standards and corporate signature initiatives, but the strategies cannot be defined by them. Multinationals should build and empower strong local teams to handle CSR at strategic levels. These teams should go beyond the public relations department to closely align with functions such as public and government affairs, legal and compliance, customer engagement, and strategy development. National and regional chief executive officers as well as visiting senior executives should also be sensitive to the role of CSR in negotiating and demonstrating the company's contribution to China.

Multinationals operating in China can contribute to, but not impose, the pace and direction of emerging national CSR frameworks and debates. Sharing international experience with addressing social and environmental issues in business can help support the development of local CSR frameworks in China that are broadly convergent with global best practice. This may take place both through international associations and vehicles, but also crucially by engaging with domestic business associations, policy institutions and relevant research institutes and think tanks.

The following are key steps for the next generation of CSR leadership in China:

- Recognize the strategic content and focus of CSR, while not ignoring the more traditional community engagement aspects.
- Build responsive stakeholder relations, while maintaining a clear alignment to China's development priorities.
- Engage actively and sensitively in China's development of CSR frameworks.
- Localize the art of CSR and stakeholder engagement in the business.

CSR IN CHINA

Challenges to Sustainable Economic Growth

Over the past few decades, China has experienced an extraordinary economic rise, establishing the nucleus of a modern economy underpinned by a skilled middle class, a rapidly developing infrastructure, and an ambitious and successful business community.

The environmental and social cost of this economic growth and the potential to develop more sustainably is a growing concern of government, business, and citizens. A report, produced by the China Academy for Environmental Planning (under the Ministry of Environmental Protection) estimates that pollution, spills, and other negative environmental impacts cost the economy an estimated 1.3 trillion RMB annually, currently equivalent to about 4% of China's gross domestic product. If these challenges are not addressed, they will weaken the nation's potential and achievements in coming decades.

EXHIBIT 1: CHINA'S SOCIAL AND ENVIRONMENTAL CHALLENGES

- **Water scarcity and quality** – In 2005, around 300 million rural residents lacked access to safe drinking water. The government's aim is that all rural residents will have safe drinking water by 2015.² As of 2007, Guangdong was treating only 50% of the province's domestic sewage, and 45 medium-size cities were completely lacking any wastewater treatment facilities.³
- **Industrial pollution and greenhouse gas emissions** – In 2006, 43% of China's cities did not meet category 2 air-quality standards. A 2009 report said that this had decreased to 17% and also acknowledged that some cities suffer serious pollution.⁴
- **Labor conditions** – Labor conditions have improved in the past decades, but the issue of excessive overtime has proved particularly intractable. Tactics of double and triple record keeping, model factories, and secret subcontracting have been well documented and widely acknowledged. Recent worker suicides at Foxconn, a contract manufacturer and the world's largest maker of computer components, were attributed to work pressure and excessive hours.⁵
- **Product safety** – Product and food safety scandals and recalls have led to deaths, illness, and injury; damaged the reputation of the Chinese business brand overseas; and resulted in domestic unrest.
- **Corruption** – Widespread corruption is one of the areas of strongest public concern and is increasingly recognized by the Communist Party of China as a critical obstacle to the country's social and economic development. China scores 3.6 on the Transparency International Corruption Perceptions Index (where 10 indicates maximum trust in government integrity), ranking above India and Russia, but below Brazil and South Africa.
- **Inequality and economic exclusion** – Although a small proportion of individuals have become extremely wealthy, the income of many citizens has not kept pace with economic growth over the past decade. The divergence in quality of life between China's urban and rural residents is especially large.

Domestic recognition of the need to transform the economy toward a more sustainable and inclusive future is reflected at every level. Premier Wen Jiabao has repeatedly characterized the current economic model as “unbalanced, unstable, uncoordinated, and unsustainable”. Such views are reflected in China’s 12th Five-Year Plan, and reinforced by increasingly vocal concerns expressed by Chinese people through local protests, petitions, and social media.

There is no doubt that China’s leadership is fully aware of the challenge and is committed to addressing it through ambitious investments and policy initiatives. This ambition will need to be translated into equally forceful practice for China to overcome the significant obstacles to its goals for green and inclusive growth. Enabling institutional developments will be particularly important in closing the enforcement gap. These developments will, in turn, require innovations in monitoring and oversight, including means by which citizens can be better informed and find avenues for more effective participation.⁶

The Rise of CSR in China

The government is increasingly looking to business for help in addressing these challenges. The role of the private sector in national development is seen in terms of the core business of investment, training and technology development, and also partnerships, and support to build the institutions, policies, and local capacities needed for a sustainable economy.

EXHIBIT 2: CSR IS A MAINSTREAM CONCERN IN CHINA

- **Policymakers** – The Chinese government, for example, the Ministry of Environmental Protection (MEP), the Ministry of Commerce (MOFCOM), the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), and the China Banking Regulatory Commission (CBRC), is advancing policy measures to encourage CSR across the business community. International collaboration through platforms such as the China Council for International Cooperation on Environment and Development has supported these advancements through increased understanding, exchange of experience, and cooperation in developing policy options for the Chinese government to consider.
- **Business leaders** – A 2010 survey of Chinese business executives and academics by *Fortune Magazine China* found that 89% agreed that social and environmental responsibility can contribute positively to long-term business performance.⁷ A 2011 Conference Board survey found that while Chinese companies do not rate themselves as far ahead as multinationals on current CSR practice, they have a higher level of aspiration.
- **Consumers** – 80% of consumers in China say that they have made a purchase from a brand because of its social reputation in the past year (second only to consumers in Mexico and Brazil and ahead of those in the United States and Europe).⁸
- **Capital markets** – Both the Shanghai and Shenzhen stock exchanges have issued guidance on CSR.

The rise of CSR in China is illustrated by the increased number of Chinese companies issuing CSR reports, as well as the multinational corporations reporting on their activities and impacts in China. Less than five years ago, few companies in China made any public mention of CSR. Now, more than 700 companies publish an annual report on their environmental and social performance, and 71 of the largest 100 Chinese companies publish a CSR report. This in particular reflects the government mandate for central state-owned enterprises to publish a CSR report.

EXHIBIT 3: CSR REPORTING IN CHINA

Chinese company CSR reports are often long, with extensive narrative detail and cover of a wide range of indicators and issues. Coverage of specific issues is varied. (see appendix 1).

Research by the local media WTO Tribune in 2009 concluded, “the overall performance of CSR reporting practices in China is low as about half of reports are still at the starting stage and characterized by inadequate disclosure in depth and breadth, low coverage of indicators and a certain gap in responding to stakeholder requirements and expectation and embodying the corporate value.”⁹ Assessments of materiality, independent assurance, forward-looking targets, and stakeholder perspectives are less common than in the global CSR reports of U.S., European, and Japanese MNCs.

Nevertheless, the quality of these reports is improving as companies develop better data systems and as reporting formats and indicators become standardized. At least 60 Chinese companies use the international Global Reporting Initiative (GRI) Guidelines. In 2010, the China Overseas Shipping Company (COSCO) demonstrated that a Chinese company could develop a CSR report to meet the requirements of the GRI at the most stringent “A+” level. Most other Chinese companies using the GRI system have not yet applied a level to their reporting. Of the more than 100 reports from companies in China featured as part of the GRI database, 80 have not declared a level.¹⁰ However, it is reckoned that many would already rate a B or C.

Some Chinese companies have begun to report specifically on the sustainability of their operations outside of China. For example, in addition to its overall sustainability report, Sinosteel has published separate sustainability reports on its operations in Africa and Australia. China National Petroleum Corporation has published sustainable development reports on its operations in Kazakhstan, Sudan, and Indonesia. Huawei released a CSR report covering its operations in North America.

At the same time, many MNCs have begun to publish specific CSR or sustainability reports to cover their operations in China. Not all of these, however, are aligned to their global reporting frameworks; some focus largely on philanthropy programs or individual “good deeds.” The most advanced are developing in-China, for-China reports aligned to their global frameworks and supported by local stakeholder dialogue. Those recognized for excellence include BASF, Intel, and Coca-Cola, which focus on the alignment of the business to China’s development priorities.

Is CSR different in China?

The development of CSR in modern China has in many respects followed a pathway comparable to recent international experience. Initial approaches by multinationals and Chinese companies often took the form of sponsorship of local educational and sporting facilities, tree planting, and other small-scale environmental and community efforts. Industries that sourced manufactured goods in China were also concerned about ensuring supply chain, labor, and environmental compliance.

CSR in China is rapidly evolving, as it increasingly becomes seen as a state-supported expectation for doing business.

EXHIBIT 4: OFFICIAL ENDORSEMENT OF CSR

Key milestones signaling government endorsement of CSR include the following:

- In 2006, the new *Company Law* stated, “Corporations in their business operation must abide by the laws, regulation, social and business morality and good faith rules, must accept supervision by government and the public, and must undertake social responsibilities.”¹¹
- In 2007, the Ministry of Commerce (MOFCOM) issued the *Circular on Enhancing Environmental Surveillance on Exporting Enterprises* to restrict socially irresponsible enterprises from conducting foreign trade.¹²
- In 2008, the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) published the *Guidelines on CSR Fulfillment by Central-Level Enterprises*. These guidelines (which are, in effect, mandatory) present CSR as the way for **enterprises to contribute to China’s national development goals**, through providing infrastructure, contributing to economic growth, strengthening competitiveness, enabling innovation, improving reputation, and enhancing employee productivity and engagement.¹³

The state’s adoption of CSR, in part, reflects a pragmatic recognition that it **cannot on its own address the challenges facing the country** as it undergoes rapid but uneven economic transition. It also reflects the experience of **Chinese state-owned enterprises (SOEs) establishing themselves as international operators or global brands**. These entities found that CSR frameworks and standards offered a useful tool for moving up in the value chain and negotiating the complex demands of consumers and civil society in diverse environments.¹⁴

The link between CSR and the state in China is not simply the case of a government setting requirements for doing business in the country. **CSR is becoming an embedded aspect of China’s own global brand and way of doing business internationally**. As China begins to assert its leadership over the sustainability agenda on the international economic and policy stage, CSR will become a key part of the government’s approach.

THE CSR AGENDA IS INCREASINGLY STRATEGIC

From its early roots in philanthropy and compliance, CSR in China has developed into a strategic concern addressing the efficiency and security of supply chains, development of new products and services, the competition for talent, and the reputation and other gains from credible governance and accountability.

EXHIBIT 5: EXAMPLES OF NEXT-GENERATION CSR IN CHINA

Energy conservation and emission reduction – Bao Steel sets company-wide goals and targets for energy conservation and emission reduction, and has made significant investments in environmental management systems. Newly acquired production units are integrated into this system to ensure consistent performance on energy conservation and environmental protection.

Partnerships – Intel China's *social innovation* approach is based on working with local governments and building the capacity of nongovernmental organizations (NGOs) in order to better understand and address social and environmental issues and create shared value. The company, for example, is investing in Chengdu in the West, by working closely with local communities, government, NGOs, and business partners to develop and implement a common growth strategy aligning their products and their production investments with the region's development priorities.

Policy alignment – China State Grid issued a white paper explaining the company's strategic thinking, mission, emphasis, implementation, and planning objectives in relation to national priorities for green development.

Standard setting – Vanke has pursued a green building initiative for the past decade and has integrated the concept into its overall business process. The company is also playing a leading role in developing and championing industry standards for green building.

Using core competencies to solve problems for China – Microsoft's CSR efforts are focused on how information communications technologies (ICTs) can help solve China's need for better rural education. The company works with NGOs and local governments to provide computer skills training for migrant workers, both in cities and rural areas, so as to strengthen their competitiveness in the job market.

Global-local collaboration – Nokia, Motorola, and China Mobile have launched a cross-sector partnership urging people to recycle their old phones. BASF China's "1+3" CSR program provides training to business partners in the supply chain to integrate CSR into their business operations.

Full life cycle responsibility – Coca-Cola China is not only working to manage its own energy consumption and water footprint, but it also extends its responsibility to the impact of its products and packaging post-consumption. Recently, the company announced that it had replaced PVC labels because they pose risks if handled improperly during the recycling process.

Studies of the development of CSR in other countries have identified a series of learning stages.¹⁵

EXHIBIT 6: CSR LEARNING STAGES

Stage	What organizations do	Why they do it
Defensive	Deny practices, outcomes, or responsibilities.	Defend against attacks on their reputation that in the short term could affect sales, recruitment, productivity, and brand.
Compliance	Adopt a policy-based compliance approach as a cost of doing business.	Address medium-term reputation and litigation risks.
Managerial	Embed the societal issue in the core management processes.	Achieve longer-term gains by integrating responsible business practices into their daily operations.
Strategic	Integrate the societal issue into core business strategies.	Gain a competitive edge by innovating products and processes to align with emerging societal concerns.
Civil	Promote broad industry participation in corporate responsibility.	Enhance long-term economic value by overcoming obstacles to sustainable development.

Perhaps more than anywhere else in the world, CSR in China is focused on ensuring compliance on social and environmental issues. However, the trends are moving rapidly into the **strategic stage where business can gain a competitive advantage by aligning their strategy to address societal concerns, and further towards the civil stage where broad industry action is aligned to national sustainable development priorities.**

Going forward, there are clear signs that CSR will continue to evolve rapidly in terms of its scope and ambition, and links to public policy and local stakeholder action. The following chapter highlights recent trends and ongoing developments in four key areas:

- CSR as a complement to public policy
- The supply chain challenge
- Emerging national CSR standards and expectations
- Demanding domestic stakeholders

CSR as a Complement to Public Policy

Yesterday's CSR in China	What is changing?	Tomorrow's CSR in China
CSR viewed by government as a foreign-imposed requirement with protectionist aims.	CSR has become a tool of public policy to encourage businesses to play a role in contributing to “scientific development” and “harmonious society.”	CSR is becoming a key factor determining competitive advantage for companies in China and for China in the global economy.

For many large businesses, the most important factor characterizing CSR in China is the proximity to public policy. From an initially skeptical stance, the government has become an active promoter of CSR, with a particular focus on the performance of large Chinese SOEs and foreign-invested companies.

Starting in 2006, strategic thinkers within the ruling communist party began to recognize that CSR, rather than being a protectionist threat to Chinese competitiveness, could be used as a tool to contribute to social sustainability and to address the ever more pressing environmental problems caused by rapid growth.

CSR is now seen as a way to ensure that companies and industry sectors contribute to China's responsible development through their investment, products, services, technology, and know-how. This is reflected in the endorsement of CSR at the highest levels and in the development of a nationally rooted body of research, standards, rankings, and guidance.

Evidence of this development has been the emergence of many state-sponsored guidelines and standards. These include both hard laws (e.g., environmental disclosure regulations, labor law, **Administrative Measures on the Control of Pollution Caused by Electronic Information Products**, and the **Circular Economy Law**) and soft law guidelines set by government departments and local governments. These efforts are joined by guidelines from stock exchanges, industry associations, and academic institutes, which also have some official endorsement. The new standards and guidelines draw not only on established international practices but also on the government priorities on green growth, balanced and sustainable development, and “harmonious society.” In addition to the explicit CSR policies, China's national frameworks for economic growth are the key context against which businesses' contributions are measured. For example, China's long-term development strategy aims to achieve a 40–45% cut in carbon dioxide emissions generated per unit of economic output by 2020, compared with 2005 levels. China's 12th Five-Year Plan, for example includes goals for saving energy, reducing emissions, improving energy efficiency, and enabling clean energy development as well as tackling disparities in health, education, and economic opportunity.

Foreign companies are coming under particular scrutiny and are being asked to demonstrate that they are managing their investments in ways that support domestic policy and administrative goals.

Interviews and surveys with business executives confirm that **government policy is seen as the key reason for companies to take CSR seriously**. For example, CSR consultancy Syntao's survey of sustainability reporting practitioners in China found that raising the enterprise's profile and supporting government policy were the most often cited reasons for reporting.¹⁶ A 2011 survey on the opinions of citizens in 16 major cities by Liao Wang (*Outlook Week*), a weekly magazine under the supervision of Xinhua News Agency, found that 66% viewed government as the major driving force for CSR in China.¹⁷

The Supply Chain Challenge

Yesterday's CSR in China	What is changing?	Tomorrow's CSR in China
<p>Focus on ensuring supply chain labor and environmental standards through codes of conduct and audit.</p>	<p>Recognition of the limits of audit approach.</p> <p>Tightening domestic labor and environmental laws and maturing of enforcement.</p> <p>Partnership and capacity building for labor and environment compliance.</p>	<p>CSR in the area of manufacturing is more focused on building capacity for environment health and safety (EHS) and HR management as well as for local enforcement of environmental and labor laws.</p>

Since the early 1990s, a key strand in CSR for MNCs in China has been a focus on environment and labor conditions in the supply chain. Challenges to public enforcement systems have been addressed through private codes of conduct and an extensive system of factory audits by buyers and their agents and, in some cases, by independent certification teams.

Supplier standards for environment, health and safety, and labor conditions are now widespread. However, while codes of conduct and auditing have supported improvements in facilities, fire safety, and equipment, the combination of competitive price and time pressure, and inexperienced and undercapitalized factories, has led to continuing compliance challenges.

As buyers and manufacturers take a “Go West” approach, moving from the coast to the inland regions, they are exposed again to fresh risks and challenging environments. InvestAssure, a corporate responsibility tracking company that monitors reports of illegal, unethical, environmentally damaging, or socially irresponsible business behavior in Asia, found that over the past two years 50% of all alerts it tracked and 65% of significant alerts came from China. The issues tended to relate to occupational health and safety, the environment, and corruption.¹⁸

Government and companies increasingly recognize that the answer to this challenge cannot come through ever stronger private monitoring systems. It must come through **building the management capacity of local suppliers and the enforcement capacity of public institutions**. Recent tightening in environmental and labor regulations, as well as increases in the minimum wage, is welcomed by many companies that have been working to address these issues on a factory-by-factory basis.

To complement the efforts of the authorities, leading companies are developing new approaches based on capacity building with factories, labor inspectorates, and occupational health authorities. These longer-term partnerships are coupled with examinations of their own buying practices, with the aim of demonstrating competitiveness gains to be made by better management and working conditions. Leading manufacturers, such as Esquel Group, Yue Yuen, and Chenfeng Group, are responding to this by seeking to develop factories that meet or exceed global standards.

Emerging National CSR Standards and Expectations

Yesterday's CSR in China	What is changing?	Tomorrow's CSR in China
Concern that many international standards initiatives represent trade and investment barriers , intentionally or otherwise.	Cautious endorsement and adoption of international standards. Learning and referencing international standards to construct China's CSR framework.	Development of national standards that are in practice increasingly harmonized with international standards.

Around the world, private standards allow public policy makers to privatize the process of developing highly technical guidance to meet both international trade needs and public policy goals. This has been a key feature of the CSR movement, where standards covering issues from public disclosure to environmental management, and from human rights to sustainable products, have helped the country to go beyond individual “good deeds” to established industry norms.

Internationally, CSR guidelines have tended to be set by multi-stakeholder bodies that draw together public, private, and civil society involvement. Legitimacy comes from this blend of accountabilities and expertise.¹⁹ However, these **blended governance models are unfamiliar and uncomfortable for Chinese companies and are suspected of being a source of intentional or unintended trade barriers.**²⁰

Of the international CSR standards, the environmental management standards developed under the International Organization for Standardization (ISO) have been seen as most accessible in China and have been adopted quickly. In 2009, 55,316 Chinese companies were certified under the ISO 14001 environmental management system standard, a number that represents more new certifications than the rest of the top 10 countries combined. The UN Global Compact's 10 principles are also seen as having legitimacy and government approval (as well as offering a low barrier to joining) and have become increasingly well recognized. To date, more than 180 companies from China have joined the UN Global Compact, more than either India, Korea, or Indonesia.²¹

Other international standards, which have achieved a measure of government approval, have also made rapid inroads. The Forest Stewardship Council (FSC) set up a national initiative in 2007, involving key ministries and think tanks, as well as other stakeholders. By 2011, the FSC had certified 2 million hectares of China's forests as sustainably managed and issued new certification to companies using forest products at a rate of one new company every three days.

Despite the government's caution toward international standards, China has agreed to adopt ISO's new CSR framework, ISO 26000, as a national standard (along with Canada and most of Europe and Latin America).²² The standard was published in Chinese at the end of 2011, and a few large enterprises are already using it for guidance in CSR management and reporting.

The past few years have seen an **explosion in the development of Chinese CSR standards and rating systems**, as CSR has shifted from being imposed from the outside to becoming a basis for China's competitive advantage at home and internationally. These standards, developed by government, industry bodies, or think tanks, tend to draw their legitimacy from government involvement or endorsement.

In light of the expansion in standards and guidance, there is a growing call for streamlining and convergence between Chinese standards and international standards. This effort is recognized as crucial for Chinese standards to gain international recognition and for companies to be able to operate with a coherent set of expectations.

Chinese and international CSR standards are increasingly converging, with the Chinese government, industry, and standards bodies engaging in international standards setting. 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. For example, during the development of ISO 26000, China was especially concerned that, although the standard is not a certification tool, it would act as an umbrella standard drawing together international norms and a wide range of international CSR standards into a set of common requirements that could be applied to trade and public procurement. The Standards Administration of China (SAC), acting as China's government delegate, took a strong position that the standard's principle of respect for international norms should be moderated by a principle of common but differentiated responsibilities and of respect for difference.²³ In line with this, the government says that it will now **develop a national CSR standard and certification system**, including a mother standard that is based on ISO 26000 but is also appropriate for the Chinese context.²⁴

The Chinese Certification and Accreditation Agency (CNCA) is currently undertaking a project on behalf of the Chinese government to investigate other countries' use and implementation of ISO 26000 and other international standards. It is cooperating with international standards bodies and has started research to support the development of a Chinese national standard and certification program for social responsibility.²⁵

The CNCA, under SAC, has undertaken exploratory and capacity-building work on CSR. It is also making initial moves to establish China's own national CSR certification system; a research task force was established in November 2010, but the system is still at a preliminary stage of research and preparation. Over the past year, members of the research team have conducted interviews with a number of leading Chinese SOEs in Shenzhen and Chengdu, such as Huawei and ZTE, consulted with experts in the field, and visited European countries to understand CSR regimes and practices.

One area where convergence is likely to be particularly sensitive is in the area of human rights. China is a signatory to the major human rights conventions; however, human rights have not been a high-profile part of CSR approaches in China, either among Chinese companies or MNCs.²⁶ As a member of the UN Human Rights Council, China recently endorsed the **UN Guidelines on Business and Human Rights**, which provides a clear framework of principles on the state duty to protect human rights, the corporate responsibility to respect human rights, and the need for remedy when corporate-related abuses have occurred. As companies respond to this framework, they will need to consider how to put it into practice in China, while Chinese companies will need to develop internationally consistent approaches, particularly in relation to their overseas operations, such as those in Africa.²⁷

It appears that any initial national standard that emerges 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. MNCs operating in China need to be sensitive to both of these pathways and contribute to their pace and direction.

Demanding Domestic Stakeholders

Yesterday's CSR in China	What is changing?	Tomorrow's CSR in China
Multinationals tended to roll out global CSR practices and signature programs , while state-owned enterprises have viewed CSR as a matter of upwards accountability to government.	Growing and confident consumers, nongovernmental organizations, media, and other local stakeholder groups are making stronger demands on business responsibility.	Increasingly active and demanding consumers and civil society; developing and testing bottom-up grievance and redress mechanisms .

Over the past decade, the demands of domestic stakeholders have become more sophisticated and organized, while the importance of addressing domestic stakeholder concerns has risen. This movement came about owing to the unacceptably high rate of environmental spills and accidents, food contamination incidents, and industrial fatalities.²⁸

In recent years, China was struck by a series of labor-related issues, such as high-profile strikes. In southern China, auto and parts factories owned by Japan's Honda Motor and Toyota Motor went on strike. These strikes became headline news, prompting action both by government and companies to improve regulation, enforcement, and performance.

Chinese consumers are learning how to wield their purchasing power to punish and pressure companies that are not seen as meeting expectations on environmental protection, product safety, and community investment and to reward those seen as doing well on these issues.²⁹ For example, the Tsinghua-Ruder Finn CSR Program survey in the auto industry and fast-moving consumer goods (FMCG) reported that Chinese consumers are becoming less tolerant of companies with poor CSR records. Consumers in China tend to hold multinational brands to higher standards than local ones.³⁰ The media and consumers frequently complain about double standards between MNCs' operations at home and in China, and research reports often compare the CSR of Chinese enterprises and MNCs and find MNCs lacking. In recent years, the Chinese media have enthusiastically highlighted health and safety failures, environmental disruption, and pricing monopoly by MNCs in China.

The Internet has aided consumer and citizen engagement on corporate responsibility. In 2008 multinationals and Chinese companies came under intense scrutiny from China's "netizens" concerned with the adequacy of their contribution to disaster relief following the Sichuan earthquake. China has 81 million bloggers drawn from a community of 340 million Internet users engaged in online discussions about contemporary issues. Citizen and consumer pressure will probably grow in importance as these groups continue to find their voice.

Competition to attract and retain skilled employees is becoming more intense, owing to labor shortages in industrial cities of the South and the lack of experienced senior managers. Having a reputation as a good employer and one that is contributing to development in China is increasingly seen as important in employee recruitment and retention.

In the past three years, there has been **rapid development of Chinese NGOs**, especially those that provide direct services to rural areas and communities, and people with disabilities. The Chinese Ministry of Civil Affairs reported that, as of 2008, China had around 400,000 registered NGOs. Unofficial estimates put the figure closer to 3 million. Environmental NGOs increasingly play an official role in raising public awareness and enabling public participation in environmental decision making and regulation.

IMPLICATIONS FOR BUSINESS

CSR in China Demands a More Strategic Approach

Although the practice and expectations of CSR in China are evolving quickly, one thing that is unlikely to change is that MNCs, perhaps more than their Chinese counterparts, will feel the pressure for stronger CSR, aligned to Chinese concerns. **This will come from diverse state bodies and increasingly from Chinese citizens using online social networks as well as more traditional civil society mechanisms.**

CSR is increasingly politicized, with foreign companies under particular scrutiny to support domestic policy and administrative goals. China is no longer aggressively courting foreign investors through preferential treatment, and Chinese industry is eagerly moving up the value chain, offering goods and services that are competitive with those provided by MNCs. Given the subtlety of geopolitical issues, demonstrating a substantive contribution to development is likely to become crucial to the “license to operate” for MNCs in China, and for their ability to grow their business.

At the same time, **the alignment of China’s national priorities with the agenda of business sustainability offers opportunities for companies to create value from innovating in China**, for instance through collaboration to develop accessible and affordable health care solutions, green technology, and inclusive business models.

The Next Generation of CSR Leadership

With China becoming an ever more complex place to operate, companies need a more sophisticated approach to CSR.

In the earlier generations of CSR in China, foreign-invested companies were seen as standard setters and examples of excellence simply by implementing their global practices and signature initiatives. But Chinese companies are learning fast and are driven by a real interest on the part of key Chinese business leaders to do the right thing, to offset some of the most painful adjustment processes for the population, and to grow the maturity of their companies for the long haul.

MNC approaches to CSR, however, are often constrained by frameworks that measure investment in terms of short-term reputational returns and limit the definition of CSR to integrity, EHS, and philanthropy. If CSR in China responds only to immediate reputational pressures, it is unlikely to develop a strategic response to social and environmental challenges and opportunities.

MNCs recognize that they face intensifying competition in both business and CSR, so it will no longer be possible to deliver CSR into China through global templates and programs. It will require a business strategy, rather than a reputation management approach. This calls for a **fundamental change in the ambition, strategic orientation, and local capacity for CSR**. That does not mean abandoning globally adopted standards or signature initiatives. However, CSR will need to be designed and delivered in China, about China, and for China in order to play its potential, constructive business role.

Key Steps to Upgrade CSR

An upgraded approach to CSR in China can support business innovation, as well as demonstrate a company's contribution to national development, which is needed to secure a license to operate. Key steps that companies should take include the following:

Recognize the strategic content and focus of CSR as well as the more traditional community engagement aspects.

- Doing and describing good deeds to the community will still be necessary but more will be needed. CSR should be blended into core business and economic issues, such as innovation, skills enhancement, and the development of high-value export industries.
- Spell out to the public and to relevant state bodies how the business is contributing to China in ways that align with national priorities. Green growth, development in the West, and partnerships that help to establish the Chinese business community in global markets are particularly important.

Broaden genuinely responsive stakeholder relations and maintain clear alignment with China's development priorities. Although companies in China have viewed the government as the primary interlocutor and main determinant of the terms of their engagement with society, it is clear that they will need to develop a broader approach to stakeholder engagement.

- This means shifting from a public relations and marketing approach toward robust performance reporting and discussion of issues and challenges.
- It also means developing **problem-solving partnerships** with NGOs, government and associated academic institutions, and think tanks that are designed to go beyond reputational benefits to support business innovation and the development of an enabling environment for sustainable development.

Engage actively and sensitively in China's development of CSR frameworks. China's position on international CSR standards is to welcome learning from global best practices and to ensure that CSR is appropriate and responsive to the local situation. MNCs will need to be sensitive to support this approach while meeting their own commitments to maintaining consistent global practices. It is important to ensure that multinationals' practices do not accentuate an "us and them" mentality on either side, but encourage joint learning, research, and program development, always focused on the role of CSR in enabling China's further development.

- Engage with Chinese-led business associations.
- Support CSR research by leading universities and policy think tanks, especially those informing key policy developments.

Localize the art of CSR and stakeholder engagement in your business. CSR in China can no longer be managed through the cascade-down approach of international standards, corporate templates, and signature programs. As one CSR manager interviewed stressed, “to grow with China means changing internal politics, empowering local managers, and developing a local strategy.”

- Empower local teams to engage with local stakeholders, and policy makers on CSR issues, and to develop business responses, as well as hold philanthropic budgets.
- Create linkages at a local level between CSR and corporate functions such as strategy, government relations, research and development, and human resources.

THE ROAD TO A SUSTAINABLE GLOBAL ECONOMY RUNS THROUGH CHINA

MNCs that take up this leadership challenge and align their businesses to China’s sustainable development challenges stand to earn great benefits.

It is clear that CSR can be an effective tool to help secure a license to operate in China. The proposition of doing business in China is shifting away from low costs and is no longer even just about winning market share in what may become the world’s largest economy. Going forward, succeeding in China will increasingly be about competing in what will be one of the most dynamic sites for developing new products, processes, and business models to create sustainable value in an uncertain and environmentally constrained world.

China is rapidly evolving and is asserting its leadership over the sustainability agenda on the international economic and policy stage. As China’s influence in international markets and on the global policy stage increases, active engagement in CSR in China offers an opportunity to influence one of the most powerful forces shaping the landscape for global business and sustainable development.

ENDNOTES

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APPENDIX 1: CSR REPORTING BY CHINESE COMPANIES AND MNCs IN CHINA

Area	Coverage	Key indicators	Prevalence
Labor issues	<ul style="list-style-type: none"> Most references are to Chinese labor laws and then to local labor laws where companies are operating outside of China. Some leading reporters refer to UNGC principles and ILO Conventions. Basic employment data is common, such as number of employees, employment by age, gender, academic degree, ethnic group. Some companies include data on employee training and satisfaction scores, social security and extra benefits, occupational health and safety data, death and injury data, and description of employee aid channels. 	Basic employee data	high
		Employment contract compliance	high
		Social insurance coverage	high
		Trade unions	high
		Holidays/leave	high
		Training	high
		Diversity	high
		Injuries/deaths	high
		Employee satisfaction	medium
Economic contribution	<ul style="list-style-type: none"> Economic contribution to China is a popular topic. CSR is often expressed in terms of contribution to economic development. MNC and Chinese reports both give coverage of total investment in China, including fiscal capital, talent, research and development, etc. 	Investment in China	high
		Location, number of facilities	high
		Job creation	high
		R&D	high
		Technology innovation & patents	medium
		Tax paid	high
		Total salary paid	medium
		Local sourcing	rare
Climate change	<ul style="list-style-type: none"> Energy savings programs often included, but few/no targets. Some GHG data, but data coverage patchy. 	Energy saving programs	high
		Energy saving data	medium
		Energy saving targets	rare
		GHG emissions/intensity	medium
		GHG targets	rare
		Method of calculation	none
		Climate change/ low carbon development discussion	rare
Human rights	<ul style="list-style-type: none"> Historically, most have not mentioned human rights. However, leading companies are now acknowledging human rights in the context of GRI and UN Global Compact principles, as well as Chinese laws and government priorities. Reporting is concentrated on employee human rights, in particular nondiscrimination and child labor. 	Commitment to human rights	rare
		Policies on human rights	rare
		Training on human rights	rare
		Performance on human rights	extremely rare
		Dilemmas and challenges	extremely rare
		Public policy positions	extremely rare
Anti-corruption	<ul style="list-style-type: none"> Quality of reporting is very mixed, ranging between detail on policies, controls, investigation, and noncompliance to very brief statements of commitment. 	Commitment	medium
		Internal controls	medium
		Numbers of investigations, findings, actions	rare
Public Policy	<ul style="list-style-type: none"> Involvement in industrial/national standards drafting/establishment often mentioned by SOEs, but there is rarely discussion of the content of policy advocacy positions. Companies refer to collective public policy advocacy efforts toward sustainability, such as WBCSD and FSC. 	Alignment with Chinese government policy	high
		Engagement in policy processes	medium
		Involvement in sustainability advocacy	medium
		Dilemmas, challenges	rare

APPENDIX 2: WHO'S WHO IN CSR IN CHINA

Key government agencies	<ul style="list-style-type: none"> ▪ The Ministry of Commerce (MOFCOM) ▪ State-owned Assets Supervision and Administration Commission of the State Council (SASAC) ▪ Ministry of Environmental Protection (MEP) ▪ National Development and Reform Commission (NDRC) ▪ State Administration of Work Safety ▪ Ministry of Human Resources and Social Security (MOHRSS) ▪ Local (provincial/city) government (e.g., Zhejiang, Shandong, Shanghai, Shenzhen, Ningbo)
Key think tanks and academic institutes	<ul style="list-style-type: none"> ▪ Development Research Center (DRC) of State Council ▪ Chinese Academy of International Trade and Economic Cooperation (CAITEC) ▪ CSR Research Center, China Academy of Social Sciences (CASS) ▪ Universities affiliated with CSR research centers (e.g., Tsinghua, Beida)
Key international CSR initiatives in China	<ul style="list-style-type: none"> ▪ Social Accountability International (SA8000) ▪ UN Global Compact ▪ Global Reporting Initiative ▪ World Business Council/China Business Council for Sustainable Development ▪ International Business Leaders Forum
Awards and ratings There are a large number of award schemes, and many that are seen as promotion for the idea of CSR rather than a rigorous assessment of performance. Nevertheless, some awards systems are viewed as genuine measures of leadership.	<ul style="list-style-type: none"> ▪ “China’s Outstanding Corporate Citizen-The Most Responsible Entrepreneurs in China” by China Corporate Citizenship Committee (CCCC) – Active participation of delegates from SOEs, private enterprises, and MNCs ▪ Golden Bee CSR Honor Roll – Hosted by China WTO Tribune, large variety of different categories of CSR awards ▪ AmCham Shanghai CSR awards – Organized and announced by AmCham Shanghai during its annual CSR conference ▪ CBN CSR Ranking – Initiated in 2008, seen as one of the most influential media awards for CSR in China ▪ “Global 500 Companies’ Contribution in China” – Southern Weekend ranks MNCs based on investment, business performance, regional contribution, CSR, and brand image. ▪ Fortune China – CSR ranking launched in 2011 ▪ China Entrepreneurs Club’s “Green Company” ranking – Well respected as a robust ranking at the cutting edge of CSR practice in China. An appraisal committee composed of domestic and international experts seeks to identify the most dynamic examples of CSR. ▪ Marco Polo award http://www.uscfe.org/acknowledgement.html
Leading companies This listing reflects key award winners in recent years; however the roster of celebrated companies often changes from year to year depending on performance and innovation.	MNC: Amway, BASF, Cisco, Coca-Cola, Dell, DSM, Eton, Ford, GE, GM, Hitachi, Honda, Honeywell, IBM, Intel, Johnson & Johnson, Kraft, L’Oreal, Nissan, Nokia, Omron, P&G, Panasonic, Samsung, Shell, Toshiba, Toyota, Volkswagen. Chinese: Baidu, Bank of Communications, Bao Steel, China Mobile, China Coal Group, China Construction Bank, China Minsheng Bank, China Mobile, China PingAn, China Railway Group, COSCO, Lenovo, PetroChina, Shanghai Aerospace Equipments Manufacturer, Shanghai Pudong Development Bank, Sinopec, Sino-steel, State Grid, TCL, Vanke, Yachang.
News services	http://syntao.com/ http://www.chinacsr.com/en/ http://www.csr-china.net/ http://www.csr-asia.com/

APPENDIX 3: ABOUT THE AUTHORS AND RELATED RESEARCH

Simon Zadek works on sustainability issues worldwide and is an independent advisor and author.

Simon is Senior Visiting Fellow at the Centre for International Governance Innovation and Senior Fellow at the Global Green Growth Institute. He is an advisor on sustainability to the World Economic Forum focused on climate finance and sustainable consumption; an honorary professor at the University of South Africa; and an associate senior fellow at the International Institute of Sustainable Development. From 2006 to 2011, he was nonresident senior fellow at the Centre for and Business and Government of Harvard University's Kennedy School. He founded and was chief executive of AccountAbility, where he established the organization's global leadership in sustainability standards, collaborative governance, and responsible competitiveness. Prior to this, he was the founding chair of the Ethical Trading Initiative and a director at the New Economics Foundation. Simon is a member of the China Council International Co-operation on Environment and Development's Task Force on Trade and Environment. He sits on the International Advisory Board of the Brazilian business network, Instituto Ethos; the Advisory Board of the sustainability fund manager, Generation Investment Management; and the boards of the International Centre for Trade and Sustainable Development and the Employers' Forum on Disability.

Simon Zadek has written this paper purely in his personal capacity.

Kelly Yu is one of China's pioneering practitioners in CSR and a dedicated professional in sustainability research.

She has worked with local and international institutions in China, including companies, government agencies, think-tanks, and development organizations. Her background spans from inside company operations and consulting firm services to collaborative delivery of research, networking, consulting, and training across various institutions. Kelly started her career with leading MNCs in China and became specialized in corporate communication. Her business experiences inspired her to further her career in Corporate Social Responsibility and broader sustainability issues at both practical and research levels. She served as the China leader for AccountAbility, managing advisory services, training, and research engagements. These included leading a research partnership between AccountAbility and the DRC (Development Research Center of State Council) on "Responsible Business in Africa: Chinese Business Leaders' Perspectives on Performance and Enhancement Opportunities," which gained wide recognition.

Maya Forstater has worked for more than ten years in the field of sustainable business, leading research and helping organizations learn, improve, and communicate on issues ranging from climate change to supply chain labor standards. She has worked with major corporations, multisector partnerships, and business groupings in the energy, ICT, apparel, mining, and minerals and mobility sectors, and has written extensively on a range of issues related to sustainability and business. She has authored and contributed to numerous publications including Responsible Business in Africa: Chinese Business Leaders' Perspectives (Harvard); "Low Carbon Growth Plans: Advancing Good Practice" (Project Catalyst); Mobility for Development (WBCSD); The UNEP/AccountAbility Handbook on Stakeholder Engagement; The Materiality Report (AccountAbility); Corporate Responsibility: Implications for SMEs in Developing Countries (UNIDO); and Business and Poverty: Bridging the Gap (IBLF).

FURTHER RELEVANT RESEARCH BY THE TEAM INCLUDES:

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