

CSR in China – how to raise the level?
**Can Chinese and foreign companies learn from
each other's?**



Research report 1/2016

New Context AB

CSR in China – how to raise the level?

Can Chinese and foreign companies learn from each other's?

At Shanghai University's Executive MBA training (hereafter SHU MBA), two groups, one in Shanghai and one in Suzhou, totalling 70 students have done group works on Chinese and foreign companies' CSR practices. The purpose has been to analyse strengths and weaknesses, to find out if the two categories of companies can learn from each other's practices.

Of the 70 students roughly half were working for foreign companies and half for Chinese companies and organisations. We had reason to believe that they were reflecting the two sides in an objective and informed way. Both groups were previously not working of CSR issues and had therefore limited knowledge about the international debate on CSR. The aim of the training was to raise the knowledge level so that they could be able to follow the key international discussions. Therefore a special chapter at the end of this report is devoted to how I as professor for the two groups could identify strengths and weaknesses from an international perspective.

1. Can and should foreign companies be treated in the same way as Chinese companies?

The aim of the WTO accession process was that remaining differences between foreign and Chinese companies should be equalized over a period of time. China has, like some other countries, a couple of open-ended exceptions, such as the right to have requirement of Chinese majority ownership in certain industries e.g. electric industry, vehicle production. Some issues were solved at the entry of China to the WTO in 2001, others within a couple of years.

The longest period was the right of foreign governments to use a simplified calculation for anti-dumping fees, however not more than 15 years that is up to 11 December 2016 (the "Market Economy Status" issue). It is therefore logical to put the question if Chinese companies now can be asked to pursue the same CSR policies as foreign companies or if a double standard in this regard is still motivated. By analysing the issues one by one, we intend in this report to find out if a basis for such double standard is still motivated, however with the overriding belief that also in this area Chinese and foreign companies should ultimately play on a level playing field.

2. CSR definitions

In the CSR training at SHU MBA we have used the UN Global Compact definition of CSR in its 10 principles that can be grouped in 4 areas

- Business and human rights
- Labour and social affairs
- Environment
- Anti-Corruption

We noticed that some Chinese sources prefer to bundle together the issues business & human rights, anti-corruption and some other issues into "corporate governance". We consider that in

New Context AB

this context it is an advantage to stick to internationally agreed principles. We cover them here in this order. We also discussed the roles of certain overreaching issues such as CSR reporting and gender issues.

3. Business and human rights

All discussions about human rights in China tend to be complicated as the main human rights issues are not company related but a part of state responsibilities. We tried to narrow down the discussion to issues for which the companies were responsible. This approach is necessary when Chinese companies go abroad and work in countries where human rights are high on the agenda but where the government in question has limited capacity to monitor foreign companies.

Well-known international cases of companies' abuse of human rights such as child labour in the supply chain of e.g. tropical fruits, damages in cases of oil spills in tropical nature (Chevron in Ecuador, Shell in Nigeria) might not appear in China where the activities of foreign companies are closely watched by authorities. It was however noted by many students that local governments would probably turn a blind eye to malpractices due to the importance for the city of employment by foreign companies.

A general Chinese comment was that human rights started to be a concern much later in China due to the historical development and remaining feudal mentality. Another concern was the general definition of human rights which is more focused on promoting economic development, the right to have a job and a living standard that can afford schooling, public health etc. The role of a company in this context is not a given one.

4. Labour and social affairs

A comment that was frequently made was that foreign companies are used to work with strong trade unions and are therefore used to take demands of employees into consideration. The Chinese trade unions were in this regard looked upon as powerless. The consideration for employees' rights was seen as positive but there were also questions if this did not render foreign companies less profitable. There is a need to go deeper into this discussion as trade union influence varies in strength and objective in different countries.

Overtime was mentioned as a typical issue where foreign companies had different policies than Chinese. In a foreign company no overtime work was done without compensation according to agreement with trade unions or according to internal rules. In a Chinese company there were usually not rules about compensation for overtime. The company leadership simply ordered staff to work overtime when needed without any compensation.

Foreign companies were seen to promote their own nationals at the expense of qualified Chinese employees. Many of them had a "glass ceiling" of how high Chinese employees could be promoted. A Chinese company is seen as promoting all people according to skill.

A foreign company would lay off staff as soon if there is an economic reason to do so. On the other hand a Chinese company is aware of the need to keep up employment.

New Context AB

The issue of child labour came up in several cases and was considered as an important problem where Chinese companies must apply the same high standards as foreign companies. The fact that child labour has been difficult to weed out in countries with e.g. tropical fruits and cotton plantation and also in some sectors such as waste collection was well known but not linked to foreign companies. The high attention from foreign companies to make sure that child labour did not appear in more remote tiers of the supply chain was noted with some surprise.

Gender issues in foreign and Chinese companies were discussed. In general Chinese companies were criticised for allowing gender discrimination to exist on many levels such as job interviews, promotion decisions, salary treatment of women who had been away for maternity leave and sexual abuse on the workplace. More subtle forms of gender discrimination were the role of advertising to cement images of housewives' responsibilities and selection of staff for sales positions that included customer relations.

Gender issues in the home countries of foreign companies were not discussed, probably as a discussion is difficult as the gender problems vary from country to country.

5. Environment

The environment was an area where students had high appreciation of the activities of foreign firms while a number of obstacles on the domestic Chinese side were noted. The area is closely linked to governmental regulation and incentives so the CSR aspects were not quite obvious. It is still necessary to discuss many details and here are those that students emphasized:

- a) Short term thinking. The Chinese attitude of underlining short term growth means less emphasis on environment as that obviously needs to be a long term work.
- b) The Chinese focus on profits leads to high risks being taken that will affect the environment. Examples were 3 Gorges, Tianjin Port explosion, Qingdao chemical plant.
- c) Chinese companies' reliance on government supervision makes them less motivated to develop own environmental strategies.
- d) The Chinese CSR reporting is in its present phase a bit limited to telling good stories and environmental problems are not likely to be reported.
- e) Chinese companies could do more in this field if they paid more attention to the availability of government subsidies and support.
- f) Chinese companies are catching up fast; an example is the popularity of the LEED standard for green buildings.
- g) Foreign companies have a longer history in this area and it is natural that they are more advanced.
- h) Foreign companies should be more generous in share their findings and technology and not only use this as profit making.
- i) Foreign companies could often do even more but they are also limited by the government's supervision that focuses on attaining a certain minimum level.
- j) It is possible that different roads could be used to reach the same goal. One example is "white pollution", i.e. the shopping bags where China goes in for fees and Western countries more favour paper bags (because of big supply of paper?)

New Context AB

6. Anti-corruption

This area was considered a grave problem for Chinese companies. They lacked strategies and thinking and must sometimes resort to corruption to solve urgent problems.

Foreign companies were respected for their stringent policies, that they punished all staff that had been involved in corruption and created safe and strong procedures to avoid corruption. It was mentioned that the Chinese government has not realized the important work done by foreign companies in this field.

7. CSR Reporting

Sustainability reporting was an unknown subject for the students. The three main reporting systems used in China are Global Compact's **CoP** (Communication on Progress), the **GRI** model and the **CASS** model. None of these models seem to be known so a considerable time was spent on explaining the methods and how to search for companies' reports in the various data bases available on line. Today the major Chinese companies report according to all three methods and there are in these cases a couple of pages at the end of the report where the different items are explained and reference is given to on what page the information is presented. While the GRI and the CASS methods are fairly precise, the CoP model can be everything from a short one page statement that the 10 principles have been adhered to (3M in our group), to a lengthy elaboration of how they have been implemented (in our group the example of the integrated report by Schneider Electric).

The "report or explain" policy was introduced as it seems to become a more common feature in advance reporting models. So was the UNGP-reporting tool (www.ungpreporting.org) for reporting on business and human rights. The GRI has introduced two new concepts in its version 4; materiality and multi stakeholder dialogue. Both issues require a certain familiarity with reporting methods, so it was not a surprise that the meaning and the relevance was questioned by some students.

A group work was done on the advantages and disadvantages of the GRI vs. the CASS method. The main conclusion was that the CASS method might be suitable for companies doing domestic business but GRI was more valuable for international oriented companies.

The fact that only a few foreign companies publish CSR reports about their operations in China was also mentioned and discussed. It can be noted that these reports sometimes use modern techniques such as materiality analysis and stakeholder dialogue but do not touch on issues like business and human rights, free trade unions and anti-corruption. In this case they follow Chinese standards such as CASS-CSR 3.0 rather than GRI 4. See appendix 1.

The ISO 26 000 standard, which is important for CSR management, was not discussed because of time limitations and that there is no data base of reports to study companies' policies and results.

New Context AB

8. Other horizontal CSR issues

a) The business case for CSR

Any discussion about CSR in China seems to raise the question about the costs involved. The costs are obvious but the advantages uncertain. We discussed the Swedish experiences as presented in the publication *Sustainable Profit* (which is also available in Chinese translation), but the end impression was that this is an issue that is difficult to quantify, both with regards to costs and gains.

b) Philanthropy

Philanthropy is still a natural way for a Chinese company to show responsibility towards society. On an intellectual level students agreed to the European view that companies should show responsibility for how they work rather than engage in charity which is unrelated to the company's business, but there is a lingering perception that profits should be shared with society. Chinese media are also very supportive of individual company leaders' activities in this field and a successful campaign can give a Chinese CEO nationwide fame in a short period. At the same time there is a suspicion from students about large US initiatives such as the recent donation by the owner of Facebook that might be part of a tax planning operation.

One activity outside the traditional area of philanthropy that was highlighted was the efforts by Alibaba to help SMEs to develop. This was not seen as an act of self-interest but a bold initiative to do something to improve the business climate in China.

c) Company organisation

Students pointed out that Chinese companies have a loose organisation and that there sometimes is not even an organizational chart. The staffs are not sure who is responsible for what. Ad hoc groups are set up to solve problems. This makes working complicated and limits the possibility of launching an all-company policy.

d) Safety and security

Food safety is an issue which is often mentioned as a problem in China due to companies' lax procedures and the shortcoming in governmental supervision. A clear cut answer could not be given but it was pointed out that companies obviously do have the ability to make their own quality control as some companies had good performance in delivering high quality food items for exports but neglected similar requirements for the home market.

Foreign companies are more careful about intellectual property rights and more aware of problems with fake products.

e) Societal objectives

Students pointed out that Chinese companies had no problems in fulfilling government objectives which could be issues such as Going West, support agriculture, help in earth quake situations, One Belt One Road. Foreign companies do not feel such a pressure, a fact which is detrimental to society if a large share of the economy would be in foreign hands.

New Context AB

Another area that was mentioned was the need to have domestic companies that develop technologies that are considered important industrial capacities that should be under the control of the state. One such area was high speed trains where reliance on foreign technology would create an unsafe situation no matter how good the intentions of foreign companies were.

A foreign company may not be held liable for acts done as they have the possibility of simply disappearing from China before a court procedure is initiated. A Chinese company can never disappear and is therefore seen as a more secure partner in the eyes of the Chinese government. A foreign company can relocate a plant from China to another country without anything else than a company decision. A Chinese company would need to negotiate with the Chinese government. A foreign company can also take back profits earned to their home country but in the case of a Chinese company profits earned will stay in China.

One comment was that foreign companies in fact receive more support from the Chinese government than what Chinese companies do. As there was no protest to this statement we could assume it reflected a broad sentiment.

9. Comments from an international perspective

A level playing field was the aim of both China and the outside world in the WTO accession negotiations of China. It is obvious that both China and foreign companies were to gain from a level playing field. At the same time a fairly long transitional period was needed on some issues in view of the history or planned economy in China. During the first decade the trend for foreign companies to establish WOFEs and introduce all their corporate systems was strong. In recent years there has been a trend for foreign companies to act through Chinese companies and thereby have a more local image.

The question that can be put today, in 2016, is if China during these 15 years of WTO membership has achieved a development of companies and trading rules that make it possible also to apply a level playing field in the area of CSR. If so is the case China will be able to take a part in international trade and investments without repeating the same mistakes as many foreign companies have done and are probably still doing in the developing world. The discussion with the EMBA students, many of whom will play a role in China's internationalization, points to a few lessons that can be learnt.

- a) As a very big economy there is a natural attitude to develop national standards rather than importing foreign ones, in which development China did not play a role. Noticeable was that few students knew about OECD in general and much less about OECD's role for CSR. China has in 2015 adopted a new standard for CSR work GB/T 36000 in force from January 1, 2016.
- b) To follow international trends in CSR it is necessary that the main instruments are available in Chinese. We noticed that many important instruments now have Chinese language versions, both with traditional and simplified spelling. Among lesser known instruments we noticed that www.cdp.net, www.business-humanrights.org and www.business-anti-corruption.com all are available in Chinese. We only discovered one main website that was blocked, www.transparency.org. Of importance for a general international outlook is that the web site of World Economic Forum (www.weforum.org) is available, as it has a rather brief Chinese version but where most reports are easy to read and understand.

New Context AB

- c) CSR as a horizontal concept for what companies can do to “do good” was not well known. The problems of environment, fraud and corruption as well as any other malpractices were by themselves well known, but the need to find an overall solution was not apparent.
- d) CSR reporting or sustainability reporting seemed to be unknown as a concept which is a consequence of the conclusion in the preceding paragraph. The fact that a report can make very general and lofty promises without explaining targets, methods, results, lessons learned and so on is therefore a problem for CSR reporting in China. The case for independent verification has to be made by those mandating reports such as stock exchanges in order to increase the trust in reporting. In China it seems that the banks are pioneering the use of independent verification. The recent publication “*Currents of change*” by KPMG on sustainability reporting was referred to as a useful source to improve reporting.
- e) General problems in China such as a discussion about business and human rights, free trade unions and practical ways to reduce corruption are still not on the agenda and this will cement some scepticism from the outside world. The fact that no mainland company made it to the Dow Jones sustainability list (green company category) while there were 36 Korean was in this respect a clear evidence.
- f) Shanghai University has the ambition in this course to give a Global Local outlook. CSR is one of those issues where a global outlook is needed, while the local experience should not be neglected.

Stockholm, 2016-02-10

Bengt Johansson

New Context AB

Foreign companies producing CSR reports on China operations (source: Golden Bee)		
日产汽车公司	NISSAN	Japan
奥林巴斯中国	Olympus	Japan
东亚银行(中国)有限公司	The Bank of East Asia	Hong Kong, China
索尼(中国)有限公司	Sony	Japan
IBM 中国	IBM	USA
戴姆勒大中华投资有限公司	Daimler Greater China Ltd.	Germany
华衍水务(中国)有限公司	Hua Yan Water	Hong Kong, China
麦德龙中国	Metro	Germany
欧姆龙中国区	OMRON	Japan
博世中国	Bosch	Germany
松下电器(中国)有限公司	Panasonic	Japan
伊顿(中国)投资有限公司	EATON	USA
无限极(中国)有限公司	INFINITUS	Singapore
亚太森博集团	ASIA SYMBOL	Singapore
日立集团	HITACHI	Japan
立邦中国	Nippon Paint	Singapore
庄臣	SC Johnson Wax	USA
金光纸业(中国)投资有限公司	Asia Pulp & Paper Co., Ltd	Singapore
三得利集团	SUNTORY	Japan
丰田(中国)有限公司	TOYOTA	Japan
晟碟半导体(上海)有限公司	SanDisk	USA
惠而浦(中国)股份有限公司	Whirlpool	USA
港华燃气	Towngas	Hong Kong, China
佳能(中国)有限公司	Canon	Japan
斗山工程机械(中国)有限公司	DOOSAM	Korea
玫琳凯中国	MARY KAY	USA
爱普生(中国)有限公司	Seiko Epson	Japan
富士施乐中国	Fuji Xerox	Japan
LG化学(中国)	LG Chem	Korea
现代汽车集团(中国)	Hyundai Motor	Korea
东芝集团	Toshiba	Japan
瑞安地产	Shui On Land	Hong Kong, China
赛诺菲中国	SANOFI	France
三星(中国)投资有限公司	Samsung	Korea
英特尔中国	Intel	USA
微软中国	Microsoft	USA
利乐中国	Tetra Pak	Sweden

New Context AB