

***Fortune China, March 2008 Cover Story:***

***FORTUNE CHINA / ACCOUNTABILITY MANAGERIAL SURVEY ON CORPORATE RESPONSIBILITY:***

**CHINA'S RESPONSIBILITY STANDARDS<sup>1</sup>**

By

Joshua Wickerham, (乔舒华) Coordinator of Chinese Affairs, AccountAbility;

Simon Zadek, Chief Executive, AccountAbility

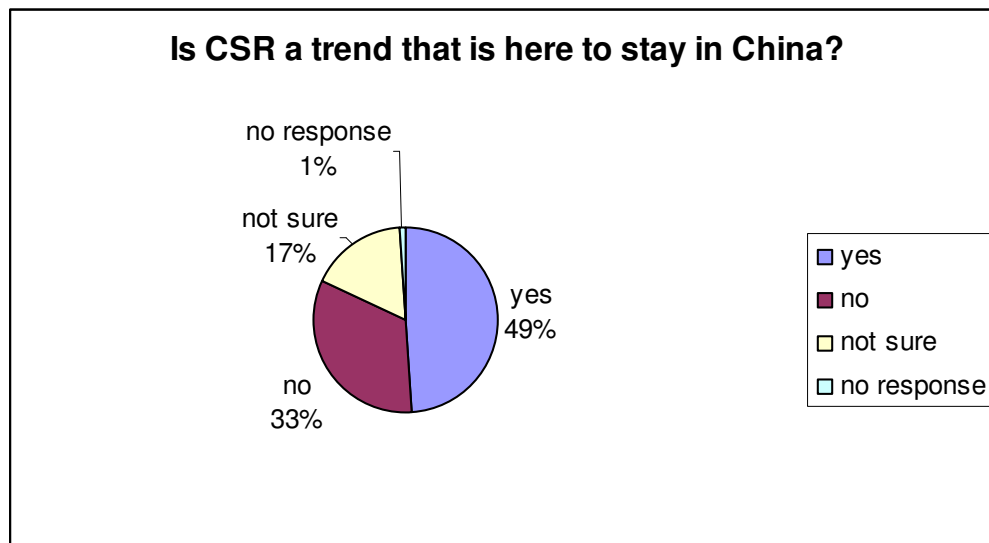
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China's fast-paced economic growth and astounding expansion in international trade are key to creating a prosperous and stable society. Yet it is only recently that Chinese business has begun to appreciate the importance of responsibility in their actions as a driver of economic success. Just a year ago, sources like the "CSR in China" survey highlighted that Corporate Social Responsibility (CSR) was still widely understood by the Chinese business community as the domain of multinational corporations, and for them mainly charity, disconnected from company strategy. But today, as China's leading businesses "go outward" - needing to attract top talent, acquire natural resources and win export contracts - they increasingly understand the place of CSR in underpinning long-term performance.

There is progress, at least in the words of growing numbers of CSR reports and public pronouncements. But how does this translate into business' real understanding of CSR in practice? The answer comes from *Fortune China's* unique, confidential reader survey of Chinese business leaders conducted annually in association with *AccountAbility*, the global think-tank (see "China's Opportunity to Embrace Responsible Competitiveness", Sept 2007 and "Accounting for accountability: Chinese corporations take their place in the global 100," January 2008). This year, 10,000 Chinese business leaders were included in the survey. The survey's 1,593 respondents reveal intriguing trends in how Chinese business' appreciation of CSR is undergoing profound and positive changes.



The headline result is that 76 percent of respondents believe that “social and environmental responsibility can improve business performance in the long term”. This hard-headed optimism on the link between CSR and long-term profitability is echoed in recent public policy developments. According to the State-owned Assets Supervision and Administration Commission’s recent CSR Guidelines, “State Owned Enterprises (SOEs) can improve their capability for innovation, corporate culture, reputation and human resource management if they

**Survey Methodology:**

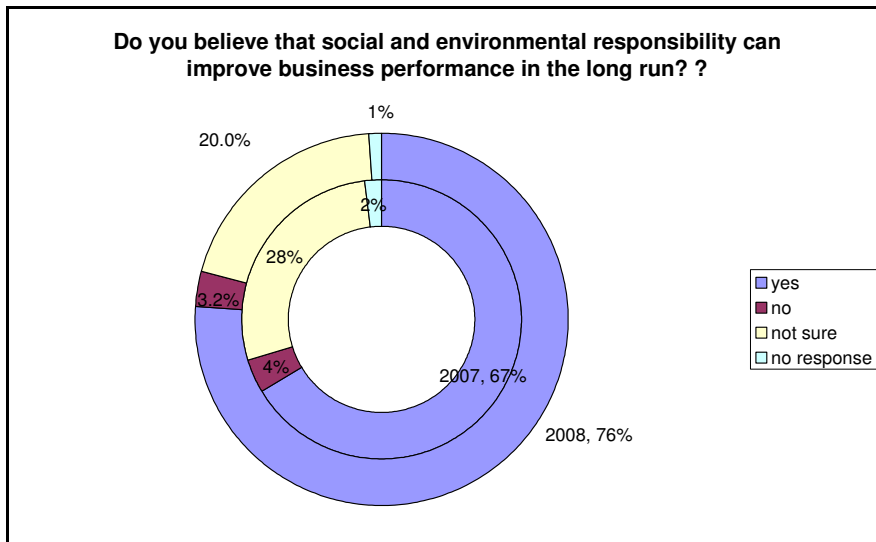
Format: email  
 Survey recipients: 10,000  
 Responders: 1,593  
 Response rate: 15.93 percent

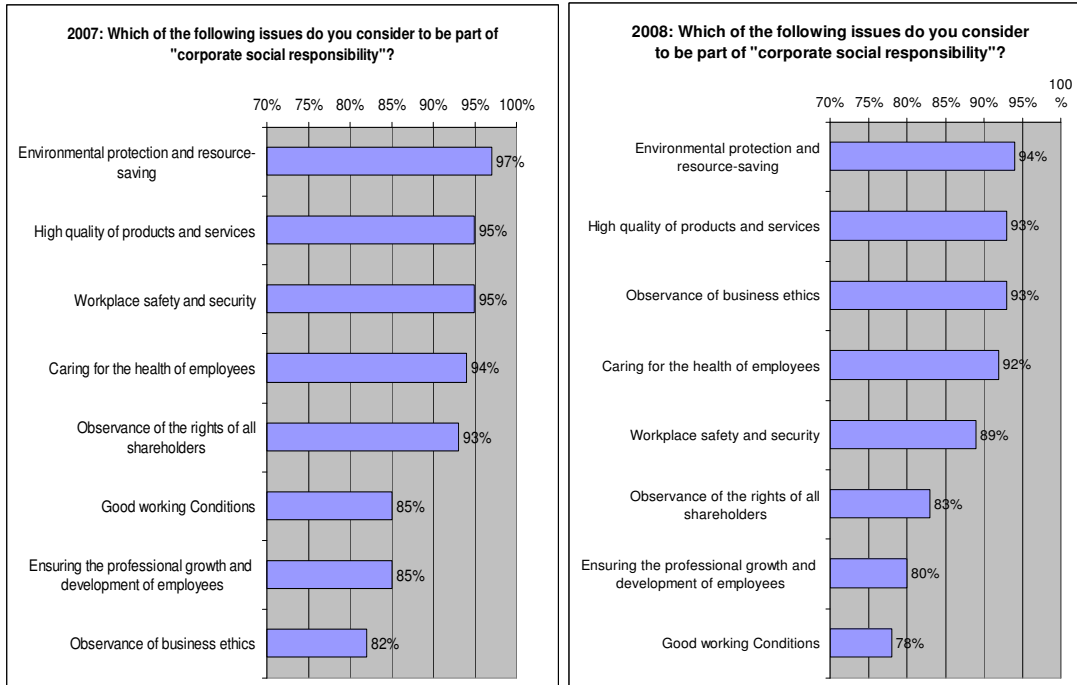
**Recipients:**

- ❖ High-level managers of large enterprises: 40%
- ❖ High-level managers of small and medium enterprise managers: 30%
- ❖ Academics: 10%
- ❖ Government officials: 10%
- ❖ Experts: 10%

can actively integrate CSR into their business operations.” The World Bank Group’s International Finance Corporation advises that there are long term credit performance enhancements for companies taking account of their environmental safety and governance risks. More Chinese companies like Hong Kong’s MTR Corporation are describing competitive advantages in terms of impact on stakeholders like staff, customers, communities, business partners and investors.

But believing this is still a long way from doing it, let alone doing it right. Chinese business’ response to the economic opportunities associated with climate change, for example, remains mixed. A 2007 survey by HSBC showed that China is one of the best equipped countries to innovate solutions in a low-carbon future, yet a second survey by the business advisory group, Accenture, in January found no Chinese companies ranking climate change as their major strategic issue.



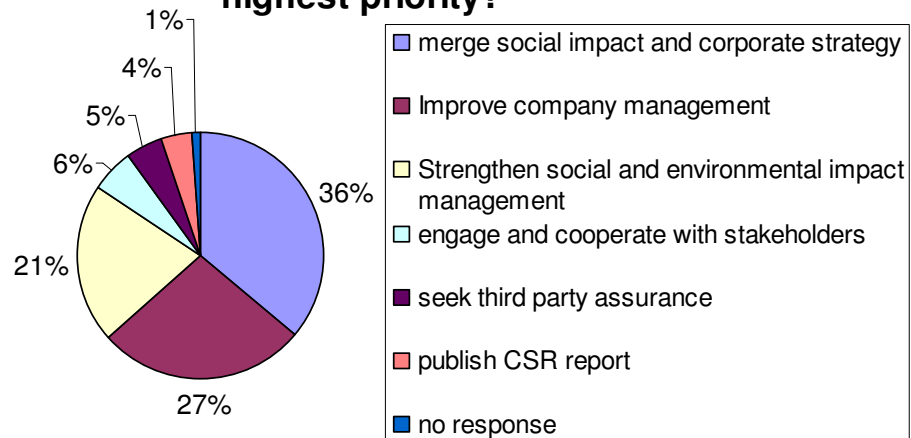


China's managers are refining their CSR priorities in a fast changing economy. *Fortune China* readers believe that "environmental protection and resource saving" and "high quality products and services" are the two most important CSR activities. "Observance of business ethics" jumped from number eight in 2007 to number three this year—an 11 percent increase. According to *Southern Weekend's* 2007 survey, 84 percent of respondents thought "improving service and reducing expenses" were central SOEs' most important CSR activities. Our survey reflects that changing management systems is less a priority this year than last year, showing the power of the 2006 "management revolution year" led by China's top SOEs. Meanwhile, the Chinese Entrepreneur Survey System shows that the vast majority of enterprise managers (87 percent) identified "creating wealth for society" as one of their basic CSR responsibilities.

### China's most recognized companies

*Fortune China* readers identify manufacturing giant Haier as both China's "greenest" company and the "most socially responsible". Haier's energy saving appliances are a core offering of this rising global brand. The Qingdao-based company cultivates workers through training, is investing in the city's infrastructure, and encourages employees to plant trees with local Youth Leagues. *Fortune* readers choose Microsoft as the foreign company with the highest recognition for both charity and social responsibility. The company successfully promotes strategic philanthropy, with the Bill and Melinda Gates Foundation's drive to eradicate disease and poverty being a strong factor benefiting the Microsoft brand.

**When undertaking more social responsibility, which of the following areas do you think is the highest priority?**



Mengniu, the inner Mongolian milk producer, is chosen as the most charitable Chinese company. The company’s founder, Niu Gensheng (牛根生), has donated over 3 billion RMB to charity, including sports, school lunch milk programs, and anti-SARS campaigns. The company also recently announced a partnership with the United Nations Environmental Program, Global Environment Fund, and National Development and Reform Commission to invest in electricity production from their cows’ methane gas.

Meanwhile, General Electric is the “greenest” foreign company operating in China, according to readers. GE gains credit for its multi-billion dollar Ecomagination program to research, design, and acquire green product lines. This model weds environmental values with long term business strategy.

What is notable about all of these companies is that they are going beyond charity to build responsible and innovative business models.

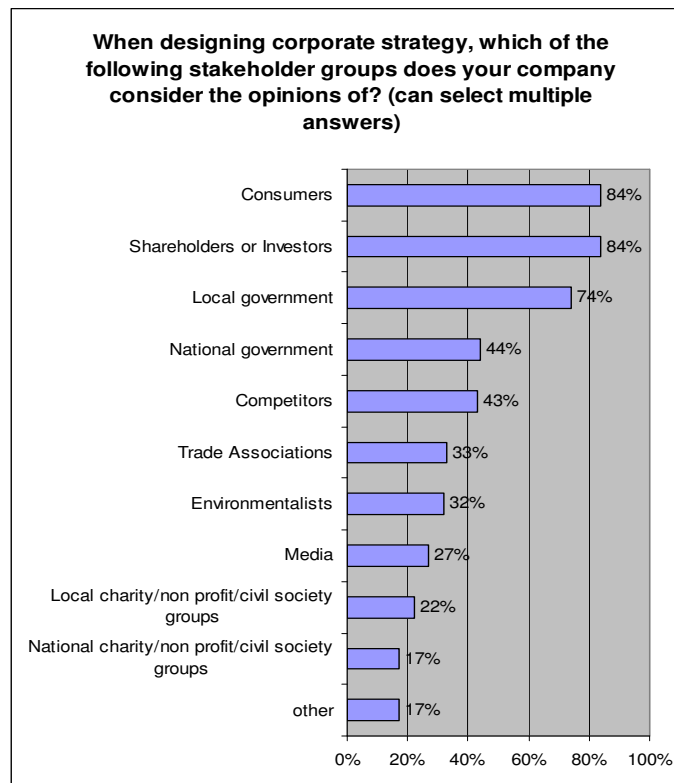
Our survey finds that 81 percent of respondents from the corporate sector, including small and medium sized enterprises, currently publish or are planning to publish annual sustainability reports. More and more Chinese managers must agree with DeutscheBank Chief Executive Josef Ackermann who says that “Improved transparency is decisive”. International companies like China Merchant Bank and State Grid are now regularly disclosing their extra-financial activities.

So is it all plain sailing? Not quite, say business leaders. Lack of knowledge is still the major obstacle to operating in a more socially responsible way. Using CSR as an approach to company learning is the focus of groups like the newly established business network, the Chinese Federation

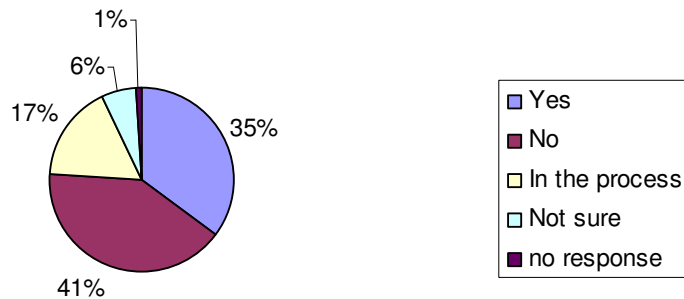
for CSR. This focus is one key to effective CSR implementation. CFCSR ([www.cfcsr.org](http://www.cfcsr.org)) is partnering with AccountAbility's Global Leadership Network ([www.globalleadershipnetwork.org](http://www.globalleadershipnetwork.org)) to deliver new tools for collaboration, learning, and strategic implementation of CSR to its growing member company base.

## Stakeholder engagement

Chinese companies are increasingly engaging with a range of stakeholders. Respondents ranked the opinions of consumers and investors as equally important when designing corporate strategy. The survey also revealed the continued significance business places on the views of local governmental officials in shaping corporate strategy, interestingly as much and often more than central government. More respondents are interested in competitors' opinions in shaping their own views and practices, than either the general public, or specific advocacy voices such as trade associations, environmentalists, the media, or civil society groups. The majority of respondents highlighted a growing pattern of direct engagement with these stakeholders, although this remains largely ad hoc and patchy compared to international best practice.



**Does your company hold special meetings to engage with stakeholder groups in a formal way to solicit their opinions?**



(Note: Above data and all questions related to “your company” are selected as a percentage of the total manager responses only, excluding government, expert and academic responses.)

The right engagement with stakeholders is one key to Chinese companies’ successful development and growth. At the local level, small and medium Chinese enterprises are exploring stakeholder engagement processes with the German Agency for Technical Cooperation (GTZ). GTZ, working with Syntao, the *WTO Tribune*, the Ministry of Commerce, and other key groups, also support stakeholder consultations on the worldwide revisions of AccountAbility’s corporate sustainability standards, the AA1000 Assurance Standards and Stakeholder Engagement Standards. China is very fast on the uptake of standards, but in many sectors, especially in assessing supply chains, this space is crowded and confused.

The World Economic Forum’s Corporate Citizenship Initiative, lead by Business for Social Responsibility, AccountAbility, International Business Leaders Forum, and Harvard University’s Corporate Social Responsibility Initiative, shows just how deeply stakeholder engagement can grow. As Deloitte’s Global Chairman John Connolly said at the January ‘08 launch in Davos, “Public governance is a global issue. No longer can businesses, governments, or non-governmental organizations afford to act independently of each other—the stakes are just too high. Only through a combined effort can we achieve economic growth, sustainability, and create an opportunity for a better life for people everywhere.”

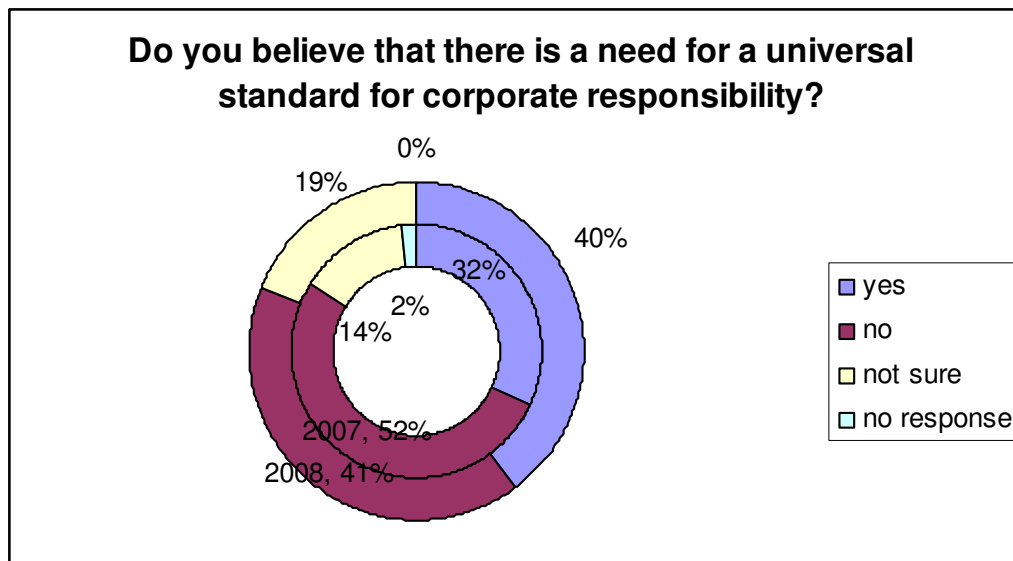
#### **Dialogue toward universal standards**

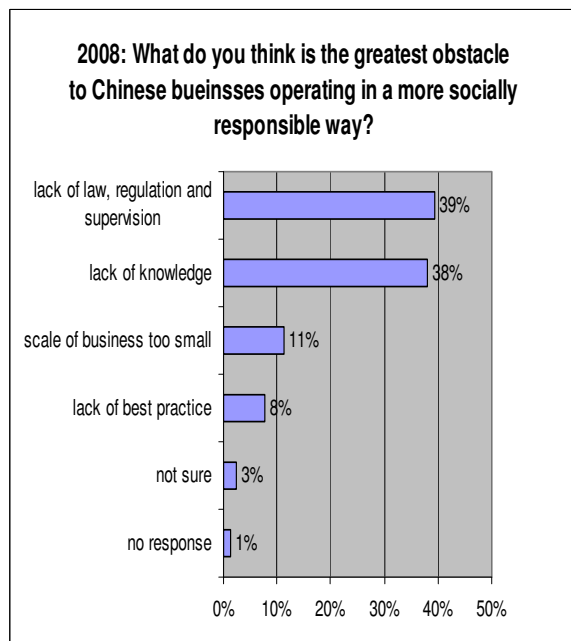
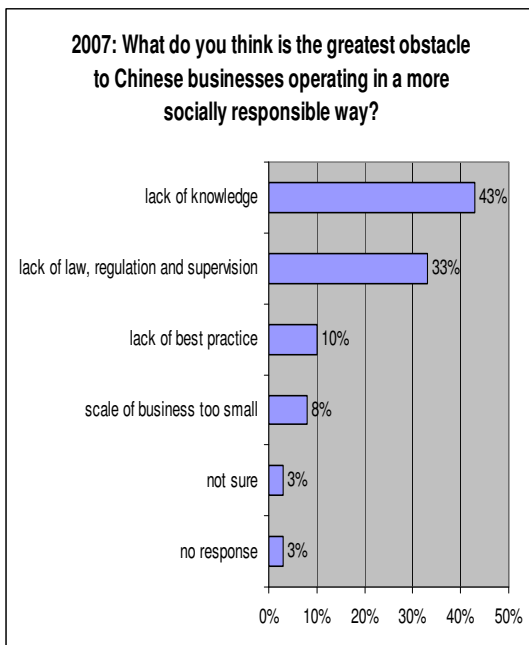
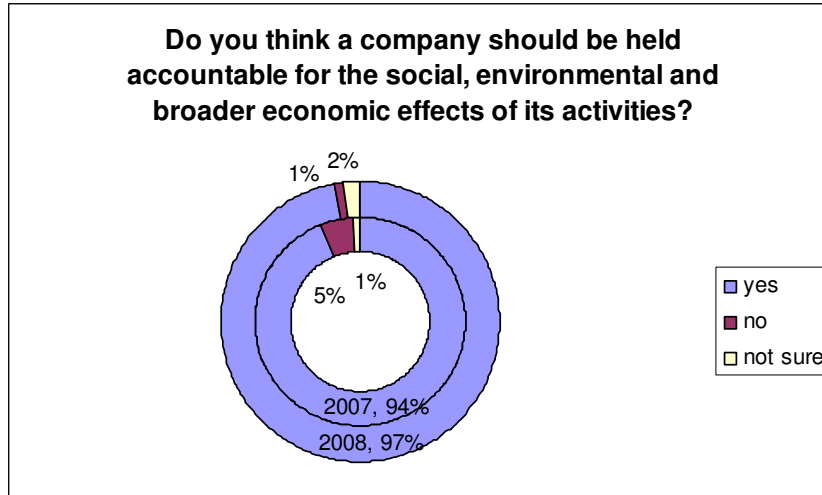
Chinese businesses are very good on standards, but do they think there is a need for a universal standard for corporate responsibility? Not quite. This year, respondents were split. Two fifths “believe there is a need for universal standards” while 20 percent remains on the fence. Still, this is an eight percent annual increase in the belief in the universality of standards. Perhaps this

reflects a growing realization of the branding, reputational, and bottom-line benefits associated with the global development of standards.

The way Chinese companies engage with stakeholders and implement standards is often part of individual company strategy. Still, advancing business accountability is becoming a shared responsibility. The Development Research Center of the State Council, along with AccountAbility and other international experts, is exploring the role of standards in Chinese transnationals' globalisation strategies. Pressing the need for how and with whom companies should engage with on global standards will be a key aspect of enhancing the economic, social, and environmental aspects of China's trade and growth. SASAC's SOE CSR Guidelines also say CSR is "necessary from the perspective of international economic dialogue and cooperation" and "has become a key criteria worldwide when people assess the value of a company". Common standards will make this dialogue and cooperation easier.

CSR leaders such as Li Weiyang (李伟阳) from State Grid Corporation and Yin Gefei (殷格非) from the *WTO Tribune* (经济导刊), see a more ethics-based approach to standards and reporting emerging in China. This is different from the process-based approach developed in the west, and there certainly is opportunity for harmonization.





Our survey also finds that 39 percent of all respondents—the largest percentage—chose “lack of relevant laws, regulations, and supervision” as the “greatest obstacle to businesses operating in a more socially responsible way”. Chinese executives surveyed by the World Economic Forum each year say that environmental regulations have become slightly *less* stringent since 2002.

Increasing regulation of CSR—either within companies, amongst other groups, or by the government—can make corporate responsibility easier to implement, but it is itself neither easy to implement nor uniform. Surveys from the *Corporate Social Responsibility Forum of China* show that industry-organized assurance mechanisms and internal systems are effective in spurring CSR

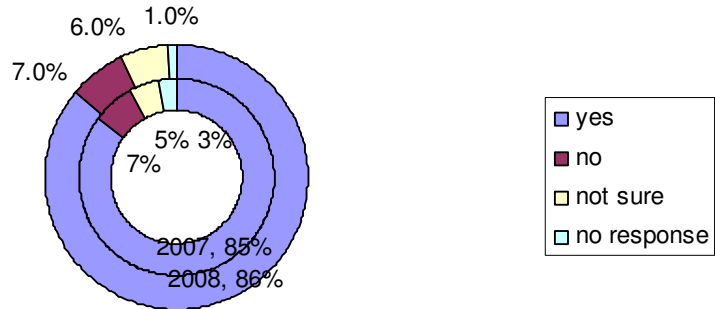


innovations. But sometimes companies seek broader public policy support. In the United States, companies like General Motors and General Electric are now pushing for higher fuel efficiency standards. These companies want government to help them secure systematic market rewards for low-carbon products—and punish laggards who shirk responsibility (low fuel economy) at their expense. Still, many governments have been cautious in creating detailed CSR regulations, fearing that they become outdated before they are implemented or that regulation could constrain competitiveness and hurt development. Inclusive, collaborative engagement with stakeholders to determine industry approaches and standards may prove least constraining and most competitiveness-enhancing.

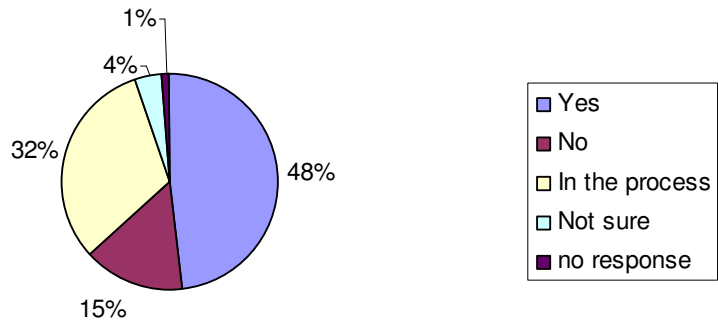
Chinese companies and stakeholders are crucial to the future of corporate responsibility both inside China and out, as the annual *Fortune China* survey demonstrates. The trends toward greater emphasis on ethics, embedding CSR in business strategy, and recognizing the need for a stronger CSR regulatory environment are very encouraging. As Chinese businesses grow capacity to lead more individual and collaborative CSR efforts, China will emerge to influence global CSR practices. Stewardship of this process rests with the guidance of government, business, and other stakeholders, both domestically and internationally. The quality of this dialogue will determine whether CSR is indeed here to stay.

Joshua Wickerham (乔舒华) ([Joshua@accountability21.net](mailto:Joshua@accountability21.net)) is based in Beijing and is AccountAbility's Coordinator of Chinese Affairs and Simon Zadek ([Simon@accountability21.net](mailto:Simon@accountability21.net)) is Chief Executive at AccountAbility, a global not for profit think tank that works to promote accountability innovations for sustainable development. More information can be found at: [www.accountability21.net](http://www.accountability21.net)

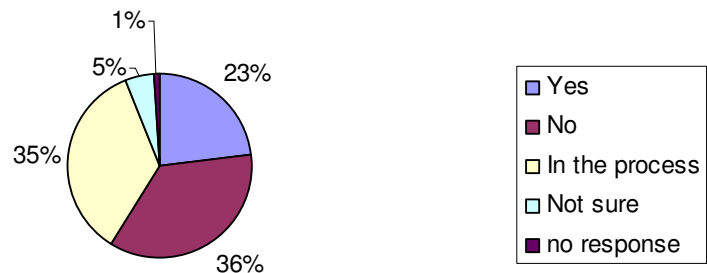
**Do you think it is time for Chinese companies to become more socially and environmentally accountable?**



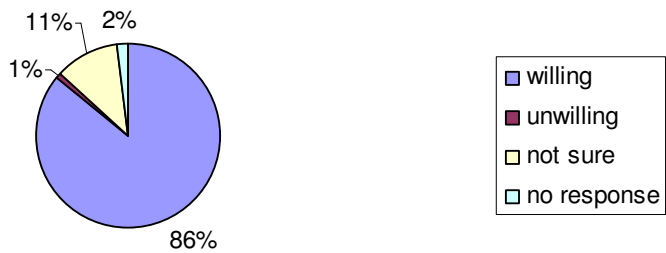
**Does your company have a corporate code of ethics?**



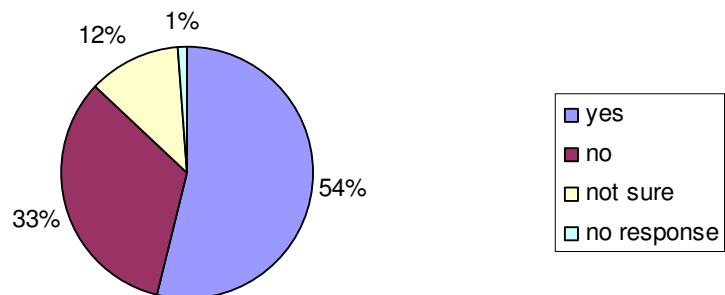
**Does your company publish an annual or semi-annual sustainability, social, CSR, or environmental report?**



**If you were your company's leader, would you be willing to undertake more social and environmental responsibility?**



**Does your company donate money to charity?**



**Do you think the majority of Chinese companies resolve the social and environmental effects of their operations?**

