

# Business forges a path to progress

**Pressures at home and abroad inspire increasing social and environmental efforts from Chinese corporations, say Brunswick’s DR LU JIANZHONG and STACEY CHOW**

**I**N 2006, AS CHINA WRESTLED WITH ITS ongoing toxic pollution crises, a section of the newly passed China Company Law required businesses to undertake “social responsibility” – the first time this idea had been legislated. Prior to that, companies had little incentive to include social value as a measure of success.

Fast-forward to today and there’s a noticeable change in how Chinese businesses operate. Big industry players including Yili, a major dairy company, Gree Electric, the world’s largest air conditioner manufacturer, and Alibaba, one of the world’s largest e-commerce platforms, are all articulating strategies to produce financial growth alongside benefits to the environment and society. Increasingly, environmental and social engagement is seen as fundamental to doing business both within China and in international markets.

The Chinese government is driving this effort, helped by three key forces. First, public awareness of the country’s polluted water, tainted food and toxic air has risen. Second, to meet the demands and expectations of global markets, companies are recognizing that they must demonstrate concern for the greater good, not just for the bottom line. And third, a generation of Chinese entrepreneurs who want to serve both their shareholders and their communities has emerged. The resulting rise of the importance of social value is a combination of a push from domestic pressures, a pull from international markets, and the personalities of the visionary Chinese business entrepreneurs who run some of the world’s most successful companies.

## DOMESTIC PRESSURES

THE GOVERNMENT DOMINATES THE CONVERSATION in China about sustainable development and social issues – a role typically filled in other parts of the world by civil society and NGOs. Key priorities of China’s 13th Five Year Plan were to reduce pollution

and increase sustainable development and inclusive growth. China’s Ministry of Commerce and Ministry of Environmental Protection also released guidelines to encourage Chinese companies to comply with environmental, social and governance (ESG) standards while operating overseas.

At the same time, China’s growing middle class, and especially its WeChat-wired netizens, remain dissatisfied with food safety and pollution in the air, water and soil. Air pollution in some cities has reached such hazardous levels that schools have been shut down on severely polluted days. In parts of China, more than 80 percent of the water from underground wells used by households, farms and factories is not fit for drinking or bathing.

Chinese citizens are increasingly vocal about China’s environmental degradation, as well as corrupt practices and weak oversight that put them at risk. In a widely publicized case in 2008, it was discovered that melamine – a chemical used in plastics and adhesives – had been added to watered-down milk to increase its protein levels. Consumers, including babies, had become sick. Though the fault lay with unmonitored intermediaries in the supply chain, dairy companies

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Development  
is of the  
people, by  
the people  
and for  
the people  
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XI JINPING  
at the World Economic  
Forum in Davos, 2017



ILLUSTRATION: DAVID PLUNKERT

needed to rebuild trust with consumers – parents, especially – from the ground up.

Yili, based in Inner Mongolia, an autonomous region of China, is among the companies doing exactly that. One of the top 10 dairy makers worldwide, the company has started training its suppliers and taking more responsibility for oversight of its entire supply chain. New technology is building accountability and transparency. Buyers of Yili’s infant formula milk powder can scan a product code to learn about the product’s ingredients and its journey from formulation to the store shelves. Sustainable farming techniques that can increase the product’s quality at its origin are also being taught and encouraged.

Despite such efforts, Chinese corporations in general have moved slowly. Most still rely on a CSR function that is synonymous with compliance, a checklist approach that simply meets regulations and ESG reporting requirements.

### EXPECTATIONS ABROAD

EVEN WITH OUTBOUND DIRECT INVESTMENT slowing in recent months, China’s non-financial overseas direct investment jumped 44 percent to \$170 billion in 2016. As they look to foreign markets, Chinese business leaders are becoming aware that perceptions of their companies remain sharply divided around the world. Brunswick’s recent report, “Deals, Dreams & Doubts: Perceptions of Chinese Businesses Going Global,” finds that Western business leaders view Chinese companies as weak on transparency, with 58 percent saying they distrust China’s state-owned enterprises. In the same survey, Chinese business leaders clearly view their own businesses more positively. Businesses are realizing that the key to bridging the gap between domestic and overseas perceptions is social engagement and community development.

### ENTREPRENEURIAL SPIRIT

THE LEADERS OF MANY OF CHINA’S BIGGEST corporations are personally applying pressure for change. Gree Electric from Zhuhai, a company that produces one out of every three air conditioners sold worldwide, is developing more energy efficient products under the direction of Chairwoman Dong Mingzhu. Until recently, the energy efficiency of appliances wasn’t an issue. However, Dong, a veteran with the company since 1990, says concern about environmental and social impact “must be



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part of a company’s strategy. It has to be embedded in its day-to-day operations.”

Dong invested in proprietary technology for more energy-efficient devices. No other company in the world makes as many small air conditioners as Gree. As a result, even a 1 percent increase in the efficiency of its products can make a significant difference in the world’s energy consumption.

The Society for Entrepreneurs and Ecology, a charity based in Inner Mongolia, was founded by the late Liu Xiaoguang, former Chairman of Beijing Capital. SEE’s original mission was to reverse the desertification that has worsened sandstorms. The group now has grown to more than 600 members, providing support to more than 400 non-government organizations throughout China.

Alibaba Executive Chairman and Founder Jack Ma says this growing awareness among business leaders is the start of an inevitable movement toward more sustainable practices. “Everyone breathes the same air,” Ma wrote in a *Harvard Business Review* editorial in 2013. “It doesn’t matter how wealthy or powerful you are, if you can’t enjoy the sunshine, you can’t be truly happy.”

Ma sees growing concern for the environment as reason to be optimistic. “Citizens now realize that they can’t wait for the government to take action. Business people are beginning to pay attention to – and take action on – social issues, including the environment. We’re not doing it for PR, but because we know of no alternative.”

Ma has also looked to create job opportunities for rural small and micro entrepreneurs. Through affiliate Alipay, operated by Ant Financial Services, Alibaba has brought financial services to millions of unbanked individuals. The company’s leaders have been strong supporters of philanthropy: Jack Ma and Joe Tsai have contributed 2 percent of Alibaba’s equity to charitable trusts that invest in projects alongside Alibaba’s foundation.

At this year’s World Economic Forum in Davos, Chinese President Xi Jinping emphasized that “Development is of the people, by the people and for the people.” That speech crystallized China’s aspiration both domestically and internationally on the global stage. Businesses are moving toward the challenge of increased shared value and impact on society. It is the beginning of a journey that will have its fair share of triumphs and challenges, but for Chinese companies, there is no turning back.