

Companies in China are racing to shape strategy around social needs, say Brunswick's LU JIANZHONG and TONG ZHAO

In the face of an economic slowdown and increased pressure on profits, it would be easy to assume China's business leaders are putting environmental sustainability and social responsibility initiatives on the back burner. Far from it.

For China's local companies, state-owned enterprises and multinational corporations (MNCs), such efforts are accelerating. Many companies are moving from ad hoc social responsibility programs to more integrated approaches, keeping up with regulations and rapidly changing public expectations.

Since 2008, the vocabulary of social responsibility and sustainability has taken

root in the popular consciousness. The public response to the Sichuan earthquake and the volunteer spirit created by the Beijing Olympics gave civic engagement and philanthropy momentum. Social media has broadened the conversation, leading to more scrutiny of the contract between business and society.

However, recent events have intensified doubts about whether government and business are doing enough. In December 2015, Beijing issued the first red alert for air pollution, resulting in school closures and restrictions on traffic and outdoor work. This led many to wonder if the country's attempts to balance economic growth and environmental concerns go far enough, and if companies are doing their part to solve quality-of-life issues.

In fact, the "new normal" – the theme of Xi Jinping's policies during his first three years in office – emphasizes that the economic pressures facing the country require a deepening focus on sustainable development. Guo Peiyuan, General Manager of SynTao, a Chinese sustainability consultant and research group, says the government's current Five-Year Plan "puts a strong focus on innovation and the green economy. As such, MNCs need to embrace the 'new normal' by adjusting their China strategies. At their core, these strategies should aim to become more involved in Chinese society using environmental and

social responsibility strategies as pillars for business, establishing trustworthy relationships with Chinese stakeholders."

Increasingly, both Chinese companies and foreign businesses operating in China are being held to higher standards. Recent laws, such as the Environmental Protection Law, have brought corporate responsibility to the regulatory forefront.

Market-based mechanisms are also strengthening. For example, the Hong Kong Stock Exchange has increased expectations for environmental, social and governance reporting from "recommended" to "comply or explain." This move is widely seen as a step toward a compulsory reporting requirement. As a result, sustainability is moving higher on the agenda in boardrooms and companies are looking for ways to link corporate social responsibility (CSR) strategies to business objectives.

Historically, MNCs have led the way on the implementation of integrated approaches to sustainability in China. Now, as the economic boom stabilizes and profits fall, there is added pressure on them to show how they are "giving back."

In MNC boardrooms, the question is not, "Should we show our commitment?" but rather, "How well are we showing that our commitment aligns with government priorities and social needs?" This conversation is growing, but there is still room to improve. While more MNCs



AND CORPORATE CITIZENSHIP: THE VIEW

are publishing China-focused corporate citizenship reports, less than 8 percent are translated into Chinese.

In Chinese companies, CSR programs still tend to be seen as an add-on, rather than central to value creation. But that is changing quickly. According to the *China WTO Tribune*, the number of CSR reports published in China rose from one to 898 in just 10 years (2001 to 2011).

“Good reputation and a strong brand are just as important as solid financial performance,” says Zheng Dongshan, Senior Vice-President of China General Nuclear Power. “After the Fukushima accident in Japan, the public’s suspicion and resistance toward nuclear power plants was unparalleled. It was vital to improve the openness, fairness and frequency of our disclosure mechanism.”

In response, Zheng’s company was among the first in China to establish a nuclear and radiation disclosure platform, to ensure the public received accurate and timely information. That also reduced the risk that inaccurate public information could harm the company’s reputation.

A barrage of networks and forums, sponsored by advisory organizations such as Golden Bee and Collective Responsibility, have emerged to further increase awareness of environmental and CSR issues. Chambers of Commerce – important platforms for both multinational and Chinese companies

China is on the path to a more sustainable future as social responsibility becomes a pillar for the economy and the country as a whole

to share information and best practices – have also put corporate responsibility high on their agenda, in response to members’ needs.

In all this increased awareness, the key components of an integrated business program are beginning to emerge, linking core values, operations and a management system that addresses social needs.

Leaders in this space in China include companies such as Intel, General Electric, PricewaterhouseCoopers, KPMG, HSBC, China Mobile and Chinese appliance maker, Gree Electric. Many MNCs are now beginning to localize their CSR programs to align with China-specific issues and needs.

UK tea marketer Twinings is a good example. Young workers moving to cities created a labor shortage among China’s rural tea farmers. Meanwhile, the remaining older farmers overused fertilizers and pesticides, resulting in environmental problems, soil degradation and reductions in quality.

To address this, Twinings focused on poverty alleviation efforts all along its supply chain. A key step has been training and education to highlight the relationship between nature, tea production, economic benefits and a more harmonious society. The move encourages more young people to become farmers and helps reduce the use of fertilizers and pesticides. And as the tea quality improves, profits rise.

China is on the path to a more sustainable future as social responsibility becomes a pillar for the economy and the country as a whole. The government’s 13th Five Year Plan outlines strategic priorities, including Made in China 2025, entrepreneurialism and the continued anti-corruption campaign. These are designed as a sophisticated and home-grown path toward sustainable growth.

Boards that can help China on that road, by demonstrating a real understanding of responsibility concerns and working with the government to implement localized programs, stand to succeed in the “new normal.”

.....
Brunswick Partner **LU JIANZHONG** heads the Shanghai office and leads the Business & Society practice in Asia. He advises on sustainable business strategy and corporate social responsibility. **TONG ZHAO** is a Partner in Hong Kong and advises on corporate reputation, capital markets, M&A and crisis communications.

ILLUSTRATION: SASHA PROOD



FROM THE CHINESE BOARDROOM