

Chinese Companies in the 21st Century (II)

A Survey on the Social Responsibility & Sustainability
of Chinese Companies

Research companies: Beijing IPSOS Advisory Co., Ltd

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Preface

Five years after its first survey of the corporate social responsibility and sustainability of Chinese companies, WWF China finished its second survey on this issue: Chinese Companies in the 21st Century (II).

The 2009 survey is expected to enhance understanding of the changes needed in Chinese companies on the path towards sustainability. It will enable WWF to provide strategic advice and support to these companies by allowing better mutual understanding of intentions and challenges.

In the past five years, there have been tremendous changes in both China and the rest of the world. Issues of great importance concerning world development and human survival, such as the global economic crisis and climate change, are making people more and more conscious of the significance and urgent need for sustainable development.

Developing in sustainable ways will be a long journey fraught with difficulty. Sustainable development, innovation and responsibility have become key concepts in this global endeavour. The survey in 2009 found that many companies have confidence in China leading the world economy. Companies with global vision have adopted the notion of corporate social responsibility and sustainable development as important strategy for long-term development. More and more companies have recognized the business benefits arising from energy saving and other environmental solutions, i.e. the pursuit of sustainability, no less than of social responsibility, makes sound business sense. Thanks to the efforts of various stakeholders, including government, media and NGOs, some new concepts, such as low carbon business and ecological footprint, have been recognized by 40% of the interviewees within the past five years.

We are pleased to celebrate these exciting improvements. However, the challenge is that efforts for innovative solutions are still far from sufficient. The companies that have initiated innovations are still limiting their ideas about innovation to within the individual company, rather than thinking in terms of multi-company and trans-sectoral innovation. This limits realization of the potential commercial and social benefits.

The findings of the survey will help WWF enhance its cooperation with companies seeking to strengthen both their pursuit of sustainability and their competitiveness in the global marketplace.

About the Research

In 2005, WWF published *Chinese Companies in the 21st Century*, a report based on a research project set up by WWF in order to deepen understanding of Chinese companies' notions of and attitudes towards corporate social responsibility (CSR) and sustainable development. The 2009 research and findings reported in *Chinese Companies in the 21st Century-II* show how these notions and attitudes have changed over the past five years.

This survey was conducted via telephone interviews covering 10 major Chinese industries, such as oil & gas, telecommunications, IT, finance and manufacturing. The target companies were leading companies that are Chinese-owned or joint ventures of which the Chinese partners own more than 50%. The interviewees were middle and senior management responsible for corporate social responsibility, public relations, sustainability and environmental issues. The researchers called 1,000 companies, of which 200 provided all or most of the information requested.

Summary

First, in terms of corporate awareness of CSR, environmental protection is regarded as the most important aspect by 98% of the respondents. This is mainly because it is a legal requirement stipulated by the government (84%), a part of corporate culture and strategy (83%), and is a brand image necessity (79%).

Analysis shows that companies with actual or intended overseas development formulate business plans based on domestic factors, especially government requirements, as much as external factors, while companies without overseas development pay much greater attention to government requirements.

Chinese companies are increasingly emphasizing environmental protection, and many consider it to be a corporate 'core value' (54% in 2005, 83% in 2009).

Second, in terms of sustainable development strategy, much needs to be improved in terms of both general awareness and corporate planning and development.

Viewing the Chinese economy as a whole, although most companies feel confident that Chinese companies can lead and have their say in the world economy in the future, half of them agree that to do this they must first strengthen technological innovation, rather than simply continue to be 'the world's factory'.

However, there exist differences between the positive expectations held by corporations and their practices in reality. When asked which aspect of environmental protection is most important, relatively few companies said it was innovation. Most companies place higher importance on such things as, 'Abide by national & local laws or standards on environmental protection' (77%), 'Reduce energy consumption' (65%) and 'Reduce pollutant discharges' (62%). Only 32% of them suggested that technological innovation could be developed as a solution to reduce energy and natural resources consumption. Only 9% of the companies mentioned that they cooperate with other companies to find solutions for sustainable development.

More needs to be done to effectively implement sustainable development strategies, rather than merely paying lip-service to the concept. Ninety-two percent of companies claim to have formulated a sustainable development strategy, but only 50% of them have assigned departments or staff to be responsible for the coordination and management of sustainability and environmental protection. The most frequent approaches to this issue are passive, primarily donation (91%) and organizing employees for CSR events (77%). Forty percent of the companies take a more direct approach to environmental issues by, for example, donating to environmental protection projects. Additionally, proactive innovation of environmental protection and leading other companies is not yet popular, although 1/3 of the companies have started to pay more attention to 'green' innovation and hope to be leaders in environmental protection.

Companies with special departments for sustainable development or those with overseas strategies focus more on sustainable development and support this with related activities, such as donating to environmental protection projects and developing innovative solutions to reduce pollution.

Improvement is needed in inter-corporate business: Less than 50% of domestic companies take into consideration the environmental impacts of potential investment partners.

By publicizing corporate environmental impacts, enterprises can let the public monitor them. So far, this is not accepted by most companies in China. One fifth of the companies release regular CSR reports, but only 7% provide standardized information on carbon discharges to international organizations.

Thirdly, companies acknowledge the importance of environmental concepts, especially those of climate change and carbon emissions.

This acknowledgement is in part driven by, and shows the importance of, public opinion and PR concerns, as well as government leadership. Currently, companies focus on climate change (88%) and carbon emissions related concepts, including reducing urban carbon intensity (72%), low carbon business (70%) and Climate Savers (61%).

Most companies are not aware of cooperation with NGOs and similar agencies. Just over half of the companies are unclear about whether they should cooperate with NGOs for environmental protection. Only 21% of companies said they already do, or intend to discuss the possibility thereof. Nearly a third do not want to cooperate with an NGO.

Detailed Findings

I. The Importance of Environmental Protection Has Been Recognized

Corporate Social Responsibility refers to the obligations to society at large that companies should take on when operating their business. It means that, while making profits and benefiting shareholders, a company should also act responsibly towards its staff, society and the environment. It is a broad concept that includes observing business ethics, promoting occupational health, protecting employees' legal rights, efficient use of resources and not polluting the environment. In China, widespread public and corporate awareness of this concept only began to arise in the mid-1990s.

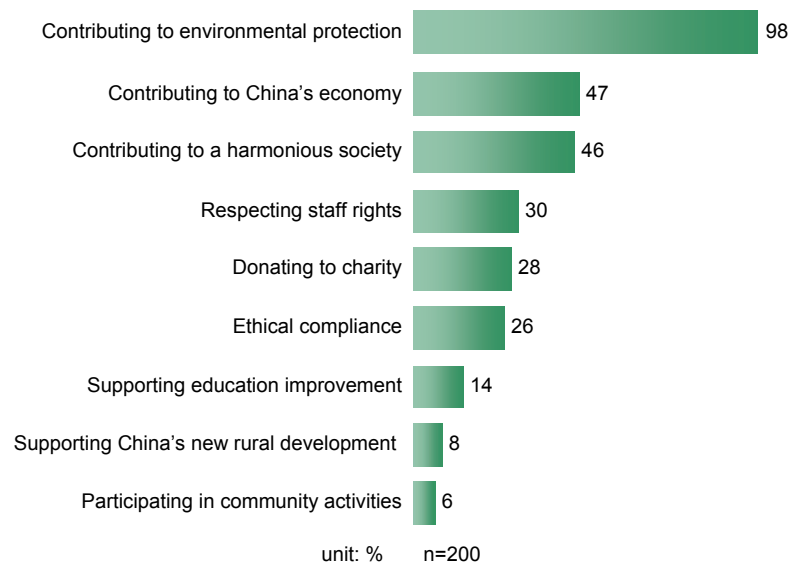
Most half the 200 companies that took part in the survey said environmental protection is an important factor in terms of CSR, about twice as many as those who identified economic contributions and benefits to society as important. This is very similar to the findings from the 2005 survey. It indicates that companies continue to pay attention to environmental issues.

Links:

China Corporate Citizenship Report (2009) points out that companies and industries produce about 70% of the environmental pollution in China. Corporate Social Responsibility is key to this problem, for a polluted environment is harmful to the public. Any company that aims at lasting development needs a healthy environment. Protecting the environment improves companies' operational conditions and benefits their long-term development. Protecting the environment should not be a form of compensation paid only after economic advancement; instead, it should be seen as an indispensable social responsibility to be assumed at the beginning of every company's development.

Chart 1:

Which are of importance to your company in terms of CSR?



II. Attention to the Environment is Driven by Both External and Internal Factors

Protecting the environment is regarded as the most important element of corporate social responsibility. This is the result of external influences and the internal consciousness of the company. The main external influence is the enforcement of governmental requirements. The second most important external influence is customers' requests. The main internal factor promoting environmental protection is that it is part of core company values. Clearly, environmental protection as a key part of company strategy, including enhancement of the company's brand image, generally reflects both internal and external factors.

Compared with the 2005 survey results, the importance placed on environmental issues has become more defined. In 2005, about half of the respondents included these issues as part of core company strategy. The 2009 survey found that this proportion had risen to 83%.

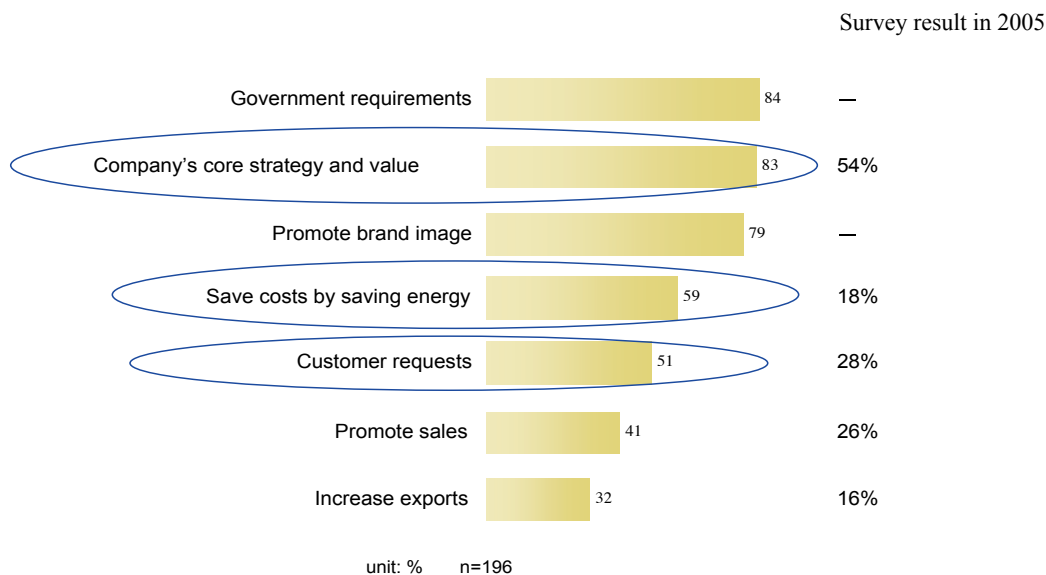
Moreover, there is now a better understanding of the relationship between environmental protection and business cost/benefit ratios. Fifty-nine of the companies surveyed now agree that reducing consumption of energy can in turn save on costs. In 2005, only 18% of the companies held this point of view. In addition, as noted above, 'customer requests' have become an external driver encouraging companies to pay more attention to environmental issues. The companies are gradually looking at environmental protection in terms of cost/benefit analysis rather than as a pure burden.

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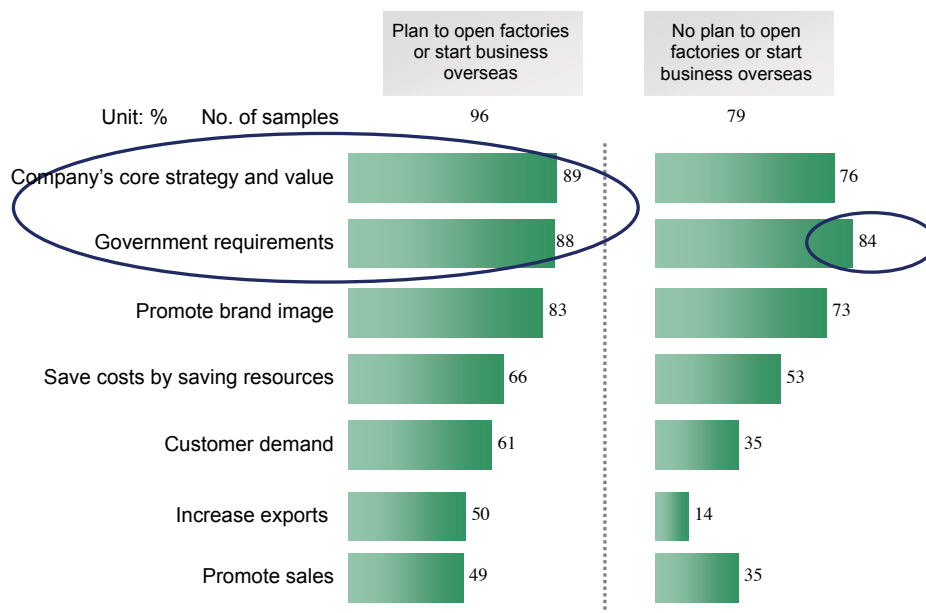
The China Corporate Social Responsibility Development Index Report (2009) (Chinese Academy of Social Sciences) shows that few companies in China are 'at the starting stage', while most others are 'watching'.

Chart 2:

Why do you think environmental issues are important to your company?



On average, companies with overseas development plans pay equal importance to both internal and external factors. They are also more likely to regard environmental protection as a core strategy and value. To companies with no overseas development plans, government requirements are more important. So NGOs may consider cooperating with the former ones at the start.



III. Technology Innovation Will Be the Key for Chinese Companies Playing Leading Role in the World's Market

Most companies expressed strong confidence in China's leading the global economy in the 21st century (Chart 3).

Although China has played a major, growing role in the global economy for some years, only a few of its companies can yet be said to be global. This is in part a result of China's 'factory role' on the industrial value chain. High technology and value are still mostly controlled by foreign companies, which have long paid more attention to technological innovation than their Chinese counterparts. Half of the companies emphasized that technological innovation is of the greatest urgency (see Chart 4).

Chart 3:

Do you think China's business would play a leading role in the world economy in the 21st century?

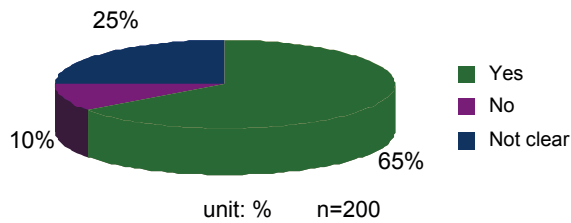


Chart 4:

What are the most urgent improvement needed for Chinese companies' leading the global economy?



IV. Sustainable Development Strategy and Actions

Most companies have sustainable development strategy

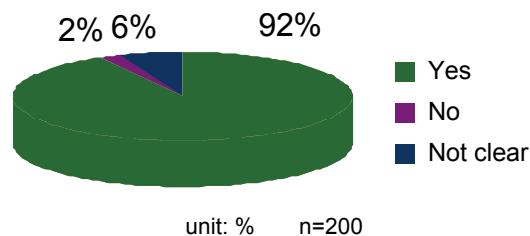
Ninety-two percent of the companies said that, for their long-term improvement and development, they have adopted a sustainable development strategy (Chart 5).

Links:

In the situation of economic globalization, there are strong interactions among the economy, society and the environment. Corporate Social Responsibility is both a vital approach to and a significant part of sustainable development, so it has become a strategic choice for companies' long-term development.

Chart 5:

Do you have a sustainable development strategy?

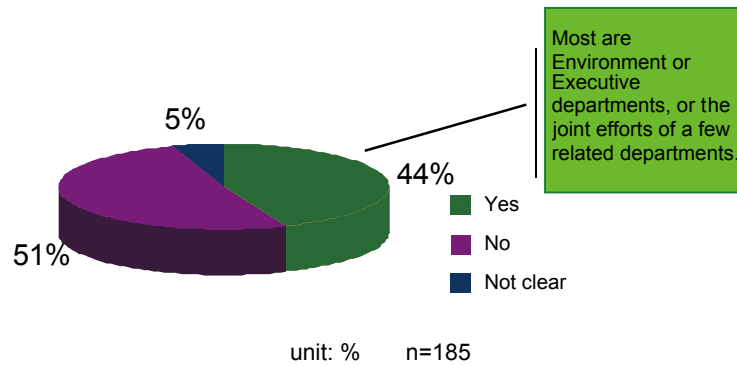


Delegated Responsibilities for sustainable development

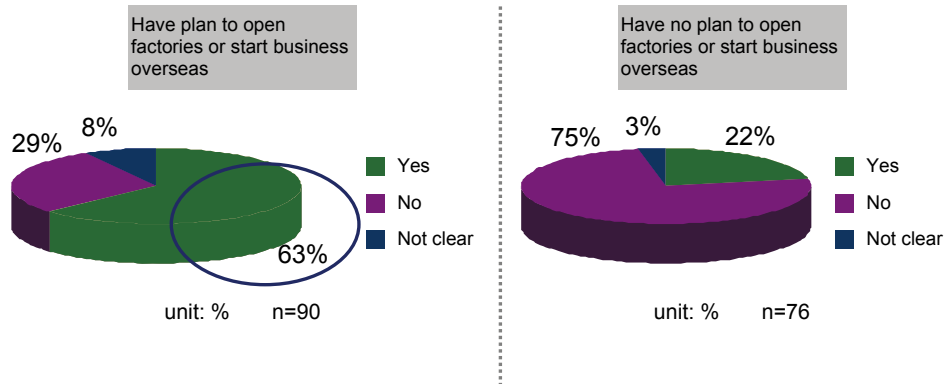
Despite the fact that a great majority of companies claim to have sustainable development strategies, less than half have an assigned department and personnel that are responsible for the coordination or management of that strategy. In half of the companies, this task is part of the work of the environment or executive department, or jointly shared by several departments.

Chart 6:

Is there an assigned department in charge of coordinating the implementation of sustainable development strategy ?



As previously noted, companies that have overseas development plans tend to pay more attention to sustainable development and environmental protection. Over 60% of these companies have departments dedicated solely to this work.



Philanthropy is the major CSR activity

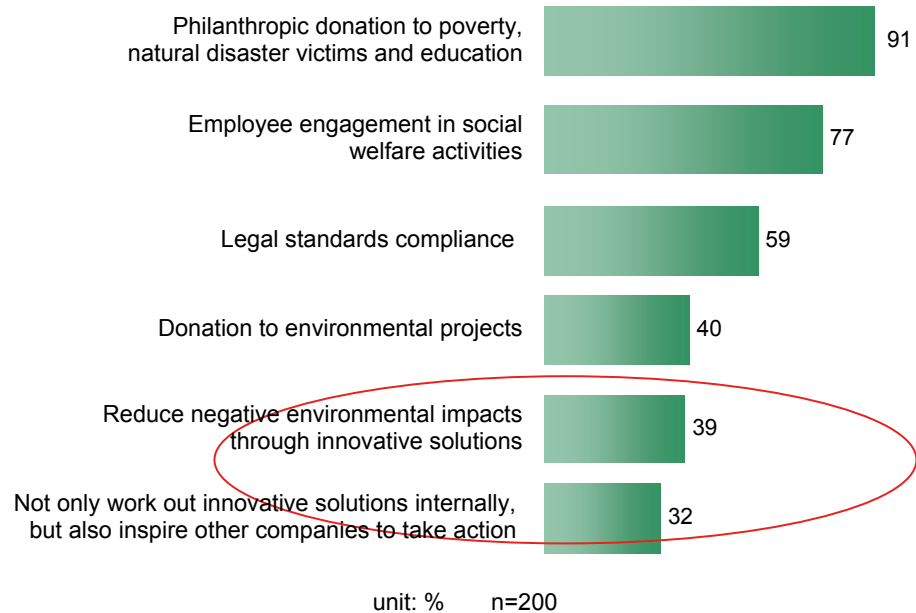
Regarding sustainable development and corporate social responsibility, the main activities of the companies are philanthropic donation, staff engagement and legal compliance. This shows that the corporate social responsibility of Chinese companies is still at the initial stage.

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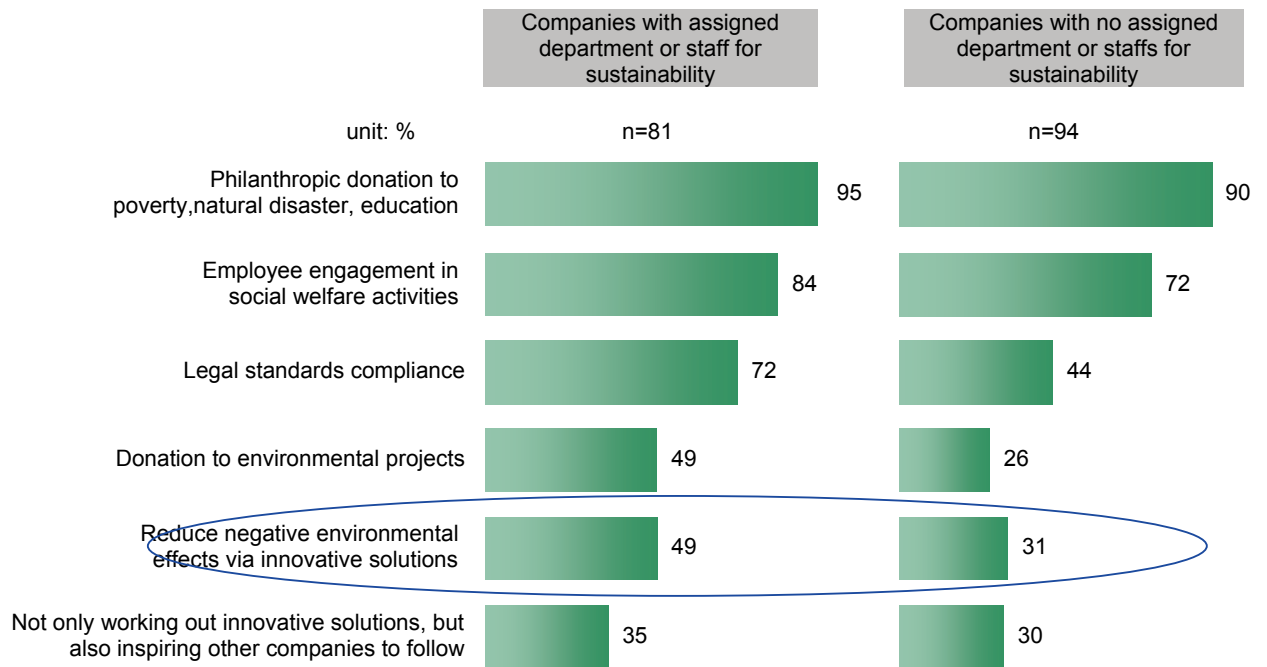
More than one third of companies have started applying internal innovative solutions to reduce negative environmental impacts, as well as to influence other companies in their sector to adopt such policies. With the influence of these leading companies and the efforts of the government and NGOs, companies are expected to pay more attention to innovation in both products and services.

Chart 7:

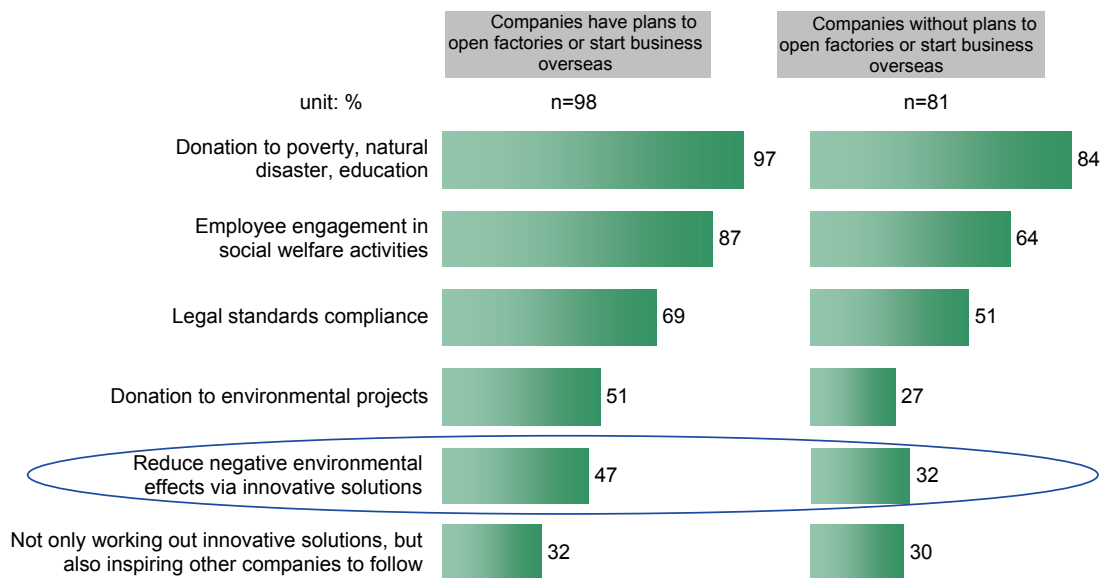
What actions have been taken to achieve the goals of sustainable development and corporate social responsibility?



Companies with assigned departments and staff for coordination of sustainability work have done more work than those without assigned departments and staff. The former ones deliver more innovative solutions to environmental issues.



Companies with plans to open factories or start business overseas have done more work than those without, among which is solving environmental problems through innovative means.

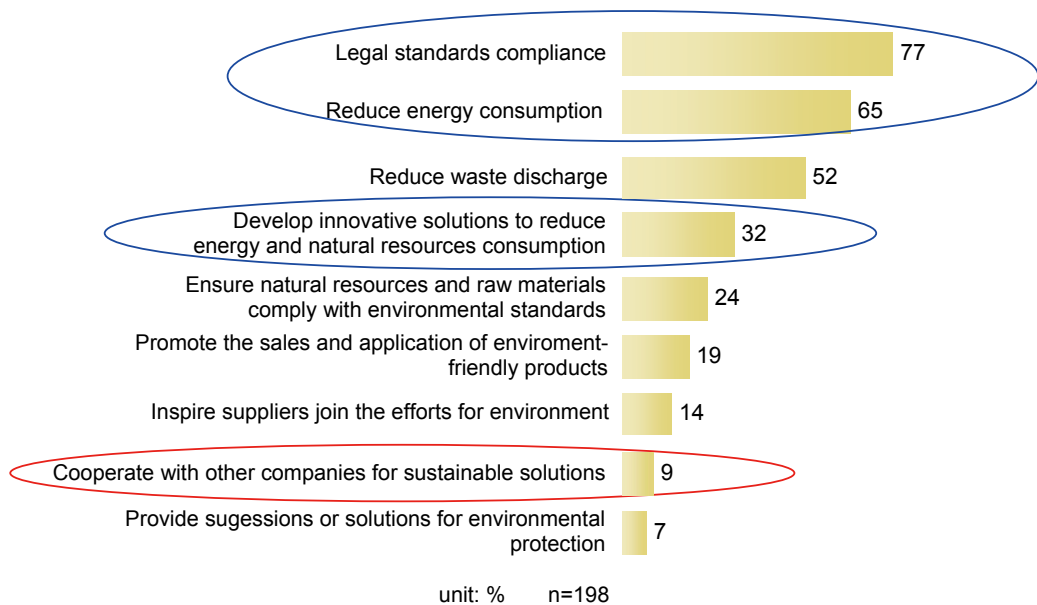


The companies admitted that compliance with national or local environmental standards, as well as reduction of energy consumption and pollution discharges, are the key factors that reduce their environmental impacts. The survey shows that mandatory regulations are effective ways to protect the environment. It also shows that most of the companies have not yet pay sufficient attention to innovative solutions for reduction of energy and natural resources consumption.

The data shows that **only 9% of the companies cooperate with other companies to develop and maximize the benefits of sustainable solutions**. However, influencing and working with other companies is essential if China is to play a leading role in the world economy.

Chart 8:

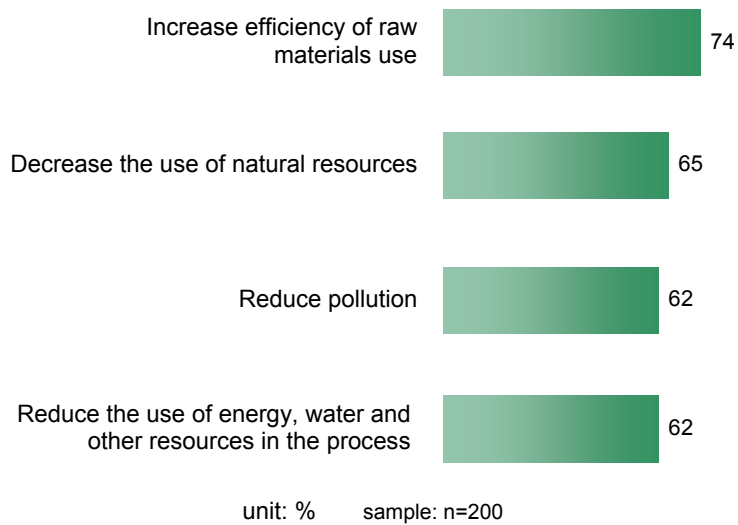
What are the most important activity your company can undertake for the environment?



Regarding the promotion of environmental protection from a production and services perspective, a majority of companies have taken measures to use raw materials and natural resources more efficiently and to reduce pollution (Chart 9).

Chart 9:

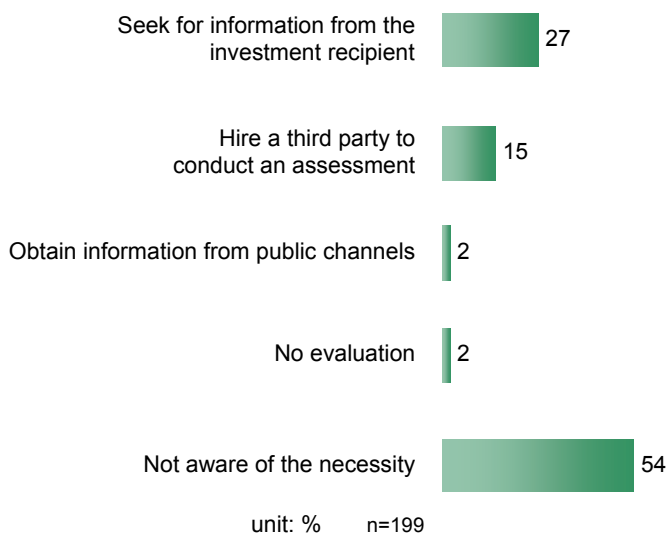
How do the products and services of your company contribute to environmental protection?



Few of the companies expressed concern with the environmental impacts of proposed investments. In fact, over half of the companies were unaware of the ‘necessity’ of environmental impact assessments. Only 15% of the companies said they hire a third party to conduct environmental audits and assessments. The importance of environmental impact assessment to corporate social responsibility and avoiding possible negative consequences in the future is not yet apparent to the majority of Chinese companies.

Chart 10:

How do you evaluate the environmental impact of investments?

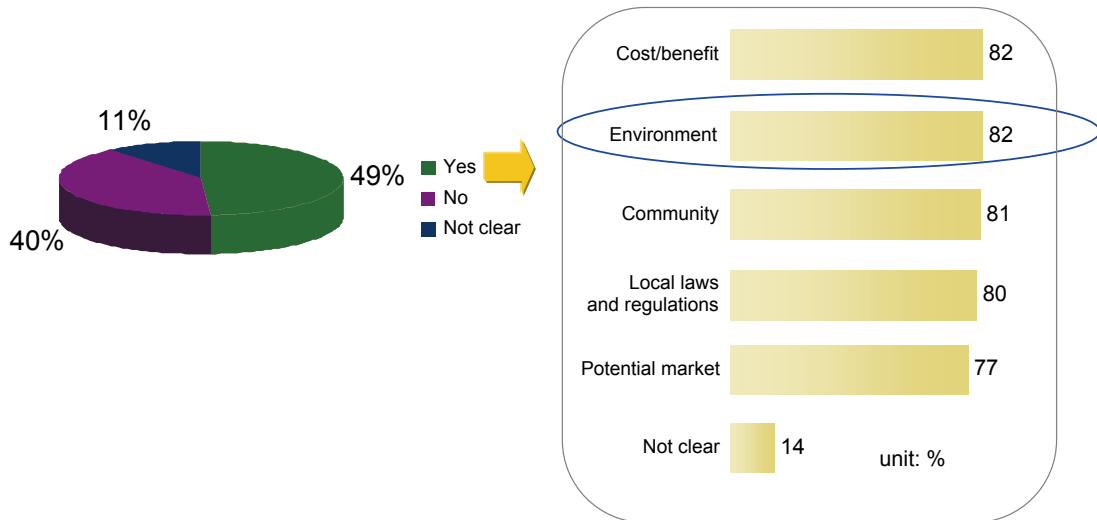


Half (98) of the interviewed companies have an international development strategy. It is encouraging to find that these companies not only pay attention to strictly financial matters (cost/benefit), local laws and legislation, but also pay equal attention to environmental concerns.

Chart 11

Does your company have strategy to develop business overseas?

Which of the following will be considered when you make overseas investments?



V. Most Companies Don't Disclose Environmental Information

The disclosure of information on a company's environmental impacts is a channel for public supervision and can encourage environmentally sound practices. However, disclosure is not yet a majority practice: 39% of the companies surveyed make the information available to the public in one way or another, which is an improvement over the 31% in 2005. It appears that more pressure from public opinion is needed.

Sustainability/CSR reports are used by 21% of the companies as a channel for information disclosure. The contents of the reports are wide-ranging and without strict official standards. Companies can compile the report based on their own understanding and needs.

Other tools for information disclosure include certifications, the media, and reports based on guidelines from the Carbon Disclosure Project and the Global Reporting Initiative.

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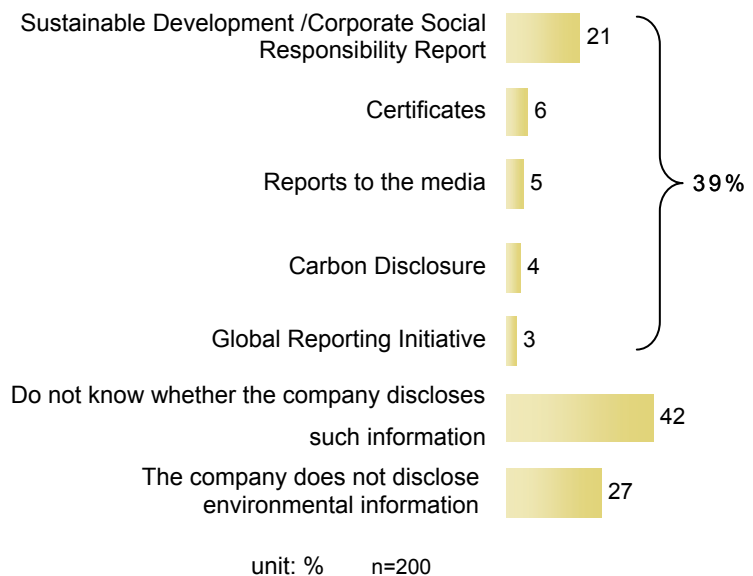
In the 1990s, under pressure from international organizations, NGOs, the government and the public, more and more transnational companies began to comply with UNGC, GRI, AA1000, AS8000 and other regulations and standards. At the same time, they started to stipulate rules to govern suppliers' and their own behaviors and to release annual Corporate Social Responsibility reports.

Links:

In March 2006, the State Grid became China's first state-owned enterprise to publish a Corporate Social Responsibility Report. This kind of report is gaining popularity among Chinese companies for two reasons. One is international pressure: socially responsible behaviour is increasingly demanded by the international market, which has a direct influence on China's companies. The other reason is domestic: Since the Chinese people are getting richer and more aware of ethical and environmental issues, they are more and more concerned about food safety, quality of life, environmental protection and the like. Unfortunately, the CSR reports we read vary in content: most of them are just high-sounding nonsense, devoid of specific cases and data.

Chart 12:

What is your principal means of disclosing company environmental information?



VI. Knowledge of Environmental Concepts Is Positive And Half Has Intentions to Cooperate with NGOs

Knowledge of environmental concepts

Climate change is the concept that respondents have heard about the most. Low carbon city policy, low carbon business and Climate Savers are also known to more than half of the respondents. Almost half of them have heard of the Forest Stewardship Council and the concept of ecological footprint. These results may in part be attributed to WWF's years of work in China.

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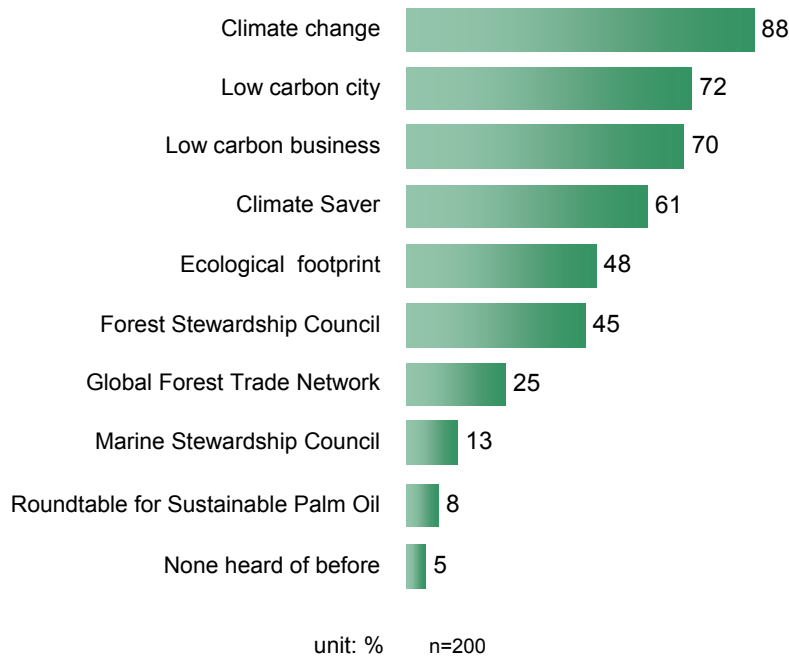
Low-carbon means the minimum feasible release of greenhouse gases (mainly carbon dioxide). At the beginning of 2008, WWF launched the Low Carbon City project in two pilot cities, Shanghai and Baoding. Since then, the 'low-carbon city' concept has quickly gained popularity, becoming the highest goal for cities after 'garden city', 'cultural city', 'charming city', and "most competitive city".

Links:

Climate Savers is an international project launched by WWF in partnership with leading corporations in different sectors aimed at encouraging companies to reduce carbon emissions. The emission reduction targets evaluated and approved by WWF are in general more challenging than the companies' previous targets and sector standards. Participants can become pioneers for carbon reduction in their sectors.

Chart 13:

Which of the following have you heard of?

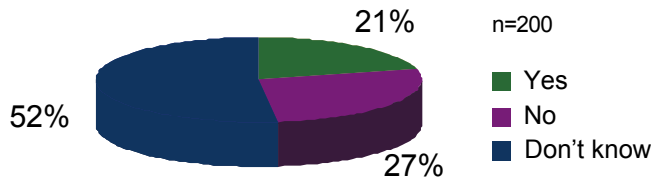


Intentions to Cooperate with NGOs

The development and growth of NGOs in China has the potential to be of great benefit to society, including the business sector. However, just over half of the respondents are unclear about whether or not to cooperate with NGOs, and over a quarter say they have no intention of doing so. Only 21% of them are already working with, or hope to work with, NGOs. Most of the companies that are considering this possibility are unclear about which NGOs to work with.

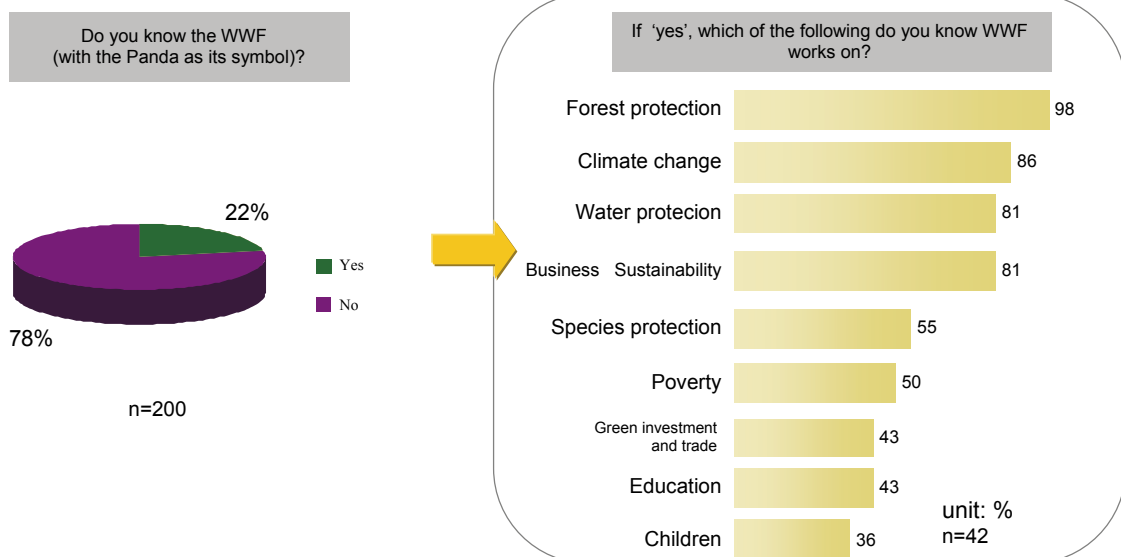
Chart 14:

Does your company work with, or intend to work with, an NGO to enhance its environmental protection and sustainable development?



The NGOs with which some companies are already cooperating, or intend to consider cooperating, including WWF, Hongkong Business Environmental Council, Green River, Xiamen Charity Aid Foundation, UNESCO, Gao Shiqi Charity Aid Foundation and the China Foundation for Poverty Alleviation, as well as universities and research institutes.

The great majority of the respondents know nothing about WWF. However, most of the 22% who do have good knowledge of the range of WWF's activities.



Appendix:

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