CSR Guide for Multinational Corporations in China

Prosperity with Integrity

Lanlin Bu and **Michael Bloomfield**
with **Jiali An**

Harmony
FOUNDATION

CREDITS and ACKNOWLEDGEMENTS

Principal Authors:

Lanlin Bu	China Program Leader, Harmony Foundation of Canada
Michael Bloomfield	Founder and Executive Director, Harmony Foundation of Canada

Co-Author:

Jiali An	Senior Researcher, SynTao

Thanks to Jing Lu, MBA from the University of Calgary, for her research and writing assistance on part of Chapter 2; and Xiangrui Meng, Research Associate at SynTao, for his research assistance on part of Chapter 3.

Principal Advisors and Reviewers:

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Peiyuan Guo	General Manager, SynTao
Kelly Yu	CSR Research & Consultancy, China
Hongwu Zhong	Director, CSR Center, Chinese Academy of Social Sciences
Lai-ling Maria Lam	Professor of Business Administration, Malone University
Bill Valentino	DeputyDirector, China Institute of Social Responsibility, Beijing Normal University
Elena Caprioni	Research Fellow, University of British Columbia

Project Partner:

SynTao Co., Ltd	Leading CSR consultancy based in Beijing, China

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Spelling:

Standard Canadian spelling is used in this document, for example labour vs. labor and centre vs. center.

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FOREWORD

by Professor Bill Valentino

Do you believe that corporate social responsibility (CSR) is not simply about looking, feeling and acting good? Do you wonder why currently learning how to be a practitioner of CSR is less about strategic business thinking and more about marketing and communications? Do you have doubts about why the current methods of CSR education predominantly emphasize theories, awards ceremonies and other promotional events, show-and-tell case studies, eye-catching sustainability reports, ethics courses in MBA programs and zealous moral, rational and economic arguments?

If you have responded affirmatively to these questions, you are definitely already reflecting deeply on why a strategic CSR perspective is important, and perhaps you have already realized how it can be useful to the bigger picture of managing an organization in China. Practitioners and the companies who employ them need a starting point for comprehending how CSR fits into China's hyper-competitive business environment. In a situation where shifting priorities must be managed dynamically, CSR has emerged to transform many interrelated networks of problems and issues facing companies into a strategic map. This represents a mindset that facilitates adapting traditional business thinking and practices to a dramatically changing world.

Strategic and design thinkers have the ability to look at the world around them and frame, focus and explain what is happening. They can transform these observations and trends into comprehensible and action-oriented knowledge. The partnership of two organizations I immensely value and respect, Harmony Foundation and SynTao, have succeeded in writing this CSR guide with exactly this outcome in mind.

Harmony and SynTao have meticulously collected experience and information in this guide, which are vital to practitioners who need it to understand and effectively implement CSR in their companies, especially in the context of China. A guide such as this did not exist so they had to create it. In doing so, they have illuminated the emerging discipline of CSR by providing managers and professionals in companies with a map for making CSR an integral part of a company's strategic business model and planning process. The strategic and design views of the authors rest on dedicated, inspiring and impressive backgrounds in research, experience and deep practical wisdom, which they have acquired over decades of participation in the evolution of CSR globally, but most importantly in China.

CSR has become ubiquitous in China; educating practitioners in the capacities, mindsets and tools to implement it is where this guide will have its deepest impact. The authors' work frames the issues and focuses on strategic and conceptual thinking as opposed to the feel-good, look-good and act-good aura that makes CSR seem more like charity or PR. Consequently, the authors reveal a strategic process that responds far more effectively to a rapidly changing world and its needs.

China's economic miracle is anchored in social stability. Its ongoing economic success calls for sustainable growth based on a new ideology of the Chinese government that focuses on a more

balanced society. Here is where a new brand of CSR with Chinese characteristics is emerging.

On a policy level the Chinese government has placed great emphasis on strengthening social balance and creating a harmonious society to ease destabilizing forces that are growing in China today. This reflects the government's preeminent task of putting China's development on a more sustainable track and ensuring continued stability.

Since 2005 China has repeatedly stressed the mantra of building a harmonious society. The principle is fundamentally about putting people first based on the ubiquitous ideology of a "scientific outlook on development." China's new government promises to accelerate this movement.

Observing the rapid changes and transformation of China, it is easy to understand how, given the huge size and scope of what is taking place in China today, the focus on CSR as a factor vital to harmony, stability and sustainable development, is critically important for China and the world.

This guide delivers what the title promises – a clear analysis, a reference work, a field manual for practitioners of CSR in China. It is a guide that maps out the uncharted course of sharing the basic knowledge needed to make CSR strategic and results-oriented for both company and society. It forecasts and recommends how to go about using CSR, not to predict the future but as a means to create it.

China has changed radically in the past three decades and continues to change at an even faster pace. The pathway to a sustainable world is filled with challenges - technological, political, social, ethical, economic and environmental. Challenges of the mind are the biggest we face in understanding why we should care, how we interact with the world around us, and how achieving sustainability forces everyone to choose not to be bystanders but active participants. It is critical for businesses in China now more than ever to grasp that this is happening and how to recognize the opportunities it offers.

This Guide should be further taken as a strong argument for better education, for promoting CSR in a way that it becomes a mindset for how everyone thinks and reflects on how their jobs and careers contribute to creating a more sustainable world. Academia needs to create a discipline for CSR practitioners and companies, a professional career path that focuses on strategic processes, purpose and impacts.

As someone who has given so many presentations, lectures and classes on the topic of a strategic CSR perspective and sustainability, I am passionate about helping people learn how CSR melds a mix of business goals and societal expectations into an attempt to define the future direction and place of business in society.

My teaching and research at Beijing Normal University have focused on five identifiable trends in China that are important elements of business strategy that make CSR increasingly relevant. These are: affluence, ecological sustainability, globalization, the flow of information and brands.

Increasing affluence in China has pushed CSR upward on the agendas of companies because it leads

to changing social expectations. These expectations are enhanced by a growing concern for the environment, as can be witnessed in the rise of public activism regarding environmental issues in China.

Globalization is exposing China to a global audience and the behavior of foreign and domestic firms are coming under greater scrutiny. This magnifies the complexity of doing business around the world parallel to the growing expectations of the increasingly sophisticated Chinese domestic audience.

The fact that China is increasingly online and connected has caused a revolution in communications which has given the Chinese public previously unimaginable abilities to monitor companies, and widely and quickly disseminate information on actions that they perceive as irresponsible or unsustainable.

The flow of information ultimately affects brands, which are more valuable than ever because of the competitive advantage they hold. In this respect CSR has taken on the task of protecting a very important investment that is essential to every company's continued success. CSR is not rocket science. It is basically common sense combined with an enlightened self-interest approach to company management and decision-making. It is impossible to prescribe a best CSR mix to deal with China's rapidly changing business landscape because CSR depends a lot on industry context and diverse strategies of individual companies for delivering value to a very broad range of stakeholders.

Effective strategy provides companies with sources of sustainable competitive advantage. The purpose of CSR is to identify these sources by understanding that the interdependence between market, strategy and stakeholder needs must be strategically planned.

Finally, teaching, writing about and practicing a strategic CSR perspective always make me think of this quote from Einstein: "We can't solve problems by using the same kind of thinking we used when we created them".

Change is needed in how we educate, learn about and effectively integrate CSR into business operations. This Guide from Harmony and SynTao is not only a huge leap in that direction but more than that, it gives the tools and hope to current practitioners of CSR and future professionals in this field to be confident that great changes are within their imagination and grasp. Thanks for the strategic and design thinkers who have made the invaluable contribution of this Guide for CSR in China.

-- Bill Valentino, January 15th, 2013, Beijing

Bill Valentino is a Professor and Deputy Director of the China Institute for Social Responsibility at Beijing Normal University's School of Social Development and Public Policy and an Adjunct Professor at Tsinghua University's Centre for International Communications. Retired in 2011 as the VP of Corporate Social Responsibility for a large multinational company in China based in Beijing, he has been living and working continuously in China since 1987.

ABBREVIATIONS

ACFTU	All-China Federation of Trade Unions
AMCHAM	American Chamber of Commerce
CASS	Chinese Academy of Social Sciences
CBA	China Banking Association
CBCSD	China Business Council for Sustainable Development
CCAA	Chinese Certification and Accreditation Agency
CNTAC	China National Textile and Apparel Council
CSC9000T	China Social Compliance 9000 for Textile and Apparel Industry
CBSR	Canadian Business for Social Responsibility
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
CSR-GATEs	China Sustainability Reporting Guidelines for Apparel and Textile Enterprises
CYDF	China Youth Development Foundation
ECFIC	Executive Committee of Foreign Investment Companies
EHS	Environment, Health and Safety
EICC	Electronics Industry Code of Conduct
FON	Friends of Nature
GeSI	Global e-Sustainability Initiative
GONGO	Government-Organized Non-Government Organization
GRI	Global Reporting Initiative
HR	Human Resources
ICT	Information and Communication Technology
ILO	International Labour Organization
IPO	Initial Public Offering
ISC	Institute for Sustainable Communities
ISEAL	International Social and Environmental Accreditation and Labeling
KPI	Key Performance Indicator
MNC	Multinational Corporation
OEM	Original Equipment Manufacturer
PRC	People's Republic of China
SA8000	Social Accountability 8000
SAI	Social Accountability International
SASAC	State-owned Assets Supervision and Administration Commission
SEPA	State Environmental Protection Administration
SIGMA	Sustainability Integrated Guidelines for Management
SME	Small and Medium Enterprises
SOE	State Owned Enterprises
SROI	Social Return on Investment
SSE	Shanghai Stock Exchange
SZSE	Shenzhen Stock Exchange
WTO	World Trade Organization

EXECUTIVE SUMMARY

In recent years companies from around the world have flocked to China, attracted by its rapidly growing economy, expanding markets, cheap labour, and low standards for environmental protection, health and safety. That is changing -- dramatically.

By October 2011 there were over 730,000 multinational corporations (MNCs) registered in China. Although MNCs brought the concept of Corporate Social Responsibility (CSR) to China, studies show under-performance, both in comparison to their practices in developed countries and with respect to rising Chinese expectations.

While CSR is relatively new in China, it has developed quickly. Both Chinese governments and the public increasingly demand that businesses improve their performance on public health, environmental protection, worker safety and social development. Regulatory compliance and image marketing will be inadequate.

In practice, however, it matters less what motivates improved performance and more how one responds in effective and practical ways that benefit not only business, but society as well.

Theprimary purpose of this guide is to help CSR practitioners and business leaders to make that transition to society-based CSR and to

- understand the public's view of CSR and the benefits of substance over appearance,
- grasp the importance of CSR in China and trends that lie ahead,
- develop meaningful CSR programs that meet societal and business needs,
- build long-term community relationships through productive partnerships, and
- learn from successful experiences and best practices in CSR.

Chapter one delivers a brief history of CSR and makes a compelling case for society-oriented CSR, an approach that aligns business values and behaviour with the expectations and needs of stakeholders. This is known as Transformational CSR.

Chapter two examines CSR in China -- history, state of the art, laws and regulations, CSR performance of multinational corporations (MNCs) and challenges going forward.

CSR development in China has gone through three stages since the 1990s – introduction, observation and development. Now the Chinese government is poised to use CSR to address social and environmental issues as part of economic and social reforms, and to promote sustainable development.

At present, there are over 30 CSR-relevant national laws, regulations and guidelines in China. Chapter two highlights the most important ones directly addressing CSR, as well as guidelines from Chinese business associations and stock exchanges. The most widely used CSR reporting guidelines in China for MNCs are the UN Global Compact and Global Reporting Initiatives. Alternatively, the framework most commonly used by SOEs in China is CASS CSR2.0, developed by the CSR Centre at the Chinese Acade of Social Sciences (CASS).

Finally, chapter two looks at internal and external CSR challenges facing MNCs in China, including poor coordination with local branches and suppliers, failure to address more stringent regulations and increasing public expectations, inadequate integration of CSR and sustainability in planning and decision-making, and weak community relations.

Chapter threebegins by making the business case for CSR in China. Subsequently, it provides practical information on how to analyze current practices and improve CSR by engaging stakeholders, including government, employees, media, NGOs, business partners and customers. Recommendations address vital topics including how to

- improve cooperation between headquarters and branches,
- advance CSR through human resources,
- conduct self-evaluation on CSR,
- strengthen community engagement,
- improve philanthropy,
- find and work with capable NGO partners, and
- upgrade CSR reporting.

Case studies presented in this guide focus on the positive, offering examples of companies whose CSR strategies and sustainability programs have increased both corporate and societal benefits. Unfortunately, negative examples are easily found elsewhere.

Options Going Forward

Every society reaches moments of reckoning and China is no exception. Seriously contaminated food, water and air, with consequent damage to public health and the environment, have led to rising social unrest and political action. Demands for a higher level of performance on labour, health, environmental stewardship and social development are growing louder and resulting in concrete actions by government and the public. It would be prudent for business to respond proactively to these calls for action.

Each company, therefore, has its own decisions to make: to continue business as usual, with a risk of being compelled to change and therefore left behind, or to align its business strategy and sustainability outcomes to meet the needs of society. Motivated by ethical business principles, forward-looking companies that are successful over the long term will be those which operate with social and environmental responsibility as core values. They will earn far greater possibilities to enhance their competitiveness and brand approval by actively pursuing improvements in overall conditions in the communities where they operate and in the world that is the market for their goods and services.

This publication may have been written for MNCs operating in China, but it is much more. It is a blueprint for success for multinational or state-owned enterprises in China or anywhere in the world. It promotes greater cooperation between business and society in order to achieve beneficial social, economic and environmental outcomes.

Our hope is that senior business leaders, as well as CSR proponents, will find this guide useful in shaping better business strategies and practices that are based on a sound understanding of CSR and a renewed commitment to forming effective partnerships with society in order to achieve a more sustainable future.

INTRODUCTION

- BACKGROUND OF THIS RESEARCH
- PURPOSE OF THIS GUIDE
- RESEARCH APPROACH
- AUTHORSHIP

BACKGROUND OF THIS RESEARCH

The majority of economists now agree that by 2030 the Chinese economy will overtake that of the United States. In anticipation, foreign companies have increasingly entered the People's Republic of China (PRC) . According to the Ministry of Commerce, PRC, by the end of October 2011, there were over 730,000 foreign companies registered in China.

Vice commerce minister Gao Hucheng said at the fifth round table meeting with multinational corporation leaders on June 22, 2012 that 490 out of the world top 500 companies have funded and established more than 1,600 research and development centers and regional headquarters in China[1]. Foreign-invested firms have reaped great benefits from China's huge market. Sales by these companies in China exceeded 33 trillion RMB ($5.24 trillion USD) in 2010 alone.

While China's modern development has been remarkable, it has been accompanied by considerable harm to public health, social development and the environment. While foreign companies brought the concept of Corporate Social Responsibility (CSR) to China through their supply chain management, most CSR programs remain driven by public relations and marketing, or are used to cover up bad behaviour. Few companies truly view societal needs as a priority. Studies show that many leading MNCs tend to practice less CSR in developing countries, including China, and put more emphasis on CSR in developed countries where they face more pressure from their consumers and investors (Lam, 2009).

There are various reasons for the insufficient CSR performance of MNCs in China:

- Some companies do not recognize or respect the development of CSR in China and just follow the rules, taking advantage of weaker social and environmental requirements;
- Some companies are just operating branches with limited authority. Their CSR has to follow head office instructions, even if the head office knows little about CSR requirements and societal needs and expectations in China; and
- Some companies are at the early stage of settling down in China. Their funds and activities are focused on launching their business in China; they fail to appreciate CSR as part of that process.

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This approach will have growing consequences. Momentum is building for action to address this deficit. As Hon. Sergio Marchi, past president of the Canada China Business Council, said during an International Coaching and CSR Conference in Beijing in 2007, "In an era where CSR is developing in China, and where the government is looking for business to lead, there is a great opportunity for companies to distinguish themselves, to be entrepreneurial in CSR, and to build reputations as good corporate citizens"

It is prudent to respond to these calls for action -- and they are growing louder. MNCs operating in China need to improve their performance on public health, worker safety and environmental protection, and at the same time contribute to social development. Such action is not only fair, but also is increasingly essential for success in China.

This presents two challenges. The first is to make sure that MNCs have a clear understanding of China's rising CSR expectations and how to get the job done successfully. The second is to ensure that what Chinese companies learn from MNCs are best practices, and not bad habits.

PURPOSE OF THIS GUIDE

Clearly there is the need for a comprehensive and practical CSR guide which can be used by companies to develop and implement a successful CSR program for China. Existing guides are either too general or they focus on individual companies or industries.

This guide, therefore, is meant to help CSR teams and leadership in MNCs to

- understand CSR from a societal point of view and to value the benefits of substance over appearance,
- gain knowledge of the CSR state-of-the-art in China,
- develop meaningful CSR which meets both societal and business interests and needs,
- build long-term relationships with local communities through reliable partnerships with civil society, and
- share successful experiences and lessons learned.

We hope that senior business leaders and CSR practitioners alike will find this guide useful in shaping their business strategies more effectively through better understanding of CSR as part of their business mandate. In addition, we hope to see this guide become a valued reference for other CSR practitioners and advisors, such as consultants, Chinese domestic companies, academics and government officials. We hope that it will help to steer marketing and branding-based CSR more toward society-focused social and environmental regeneration practices that are beneficial to both society and business.

RESEARCH APPROACH

This guide is based upon extensive research that includes benchmark studies and surveys, CSR policies, issues and cases in China, as well as corporate websites of selected international companies. In addition, š Z] • Œ • Œ Z o • } Œ Á • µ ‰ } v] u ‰ } Œ š v š ^ Z P µ] o] v • l (Œ u Initiative (GRI), the United Nations Global Compact, ISO26000 and others.

Moreover, we also incorporate the Harmony Foundation's substantial experience working with business and within China, SynTao's working experience with their clients and their considerable knowledge about CSR practices in China, and the knowledge and insight contributed by a host of expert advisors and reviewers.

AUTHORSHIP

Lanlin Bu and Michael Bloomfield initiated and managed this CSR guide project. They were principal authors, leading and coordinating the project, and are responsible for its overall design, development and final content.

Lanlin Bu is the Leader of Harmony's China Program, promoting public engagement and cooperation among business, government and communities in addressing environment and development issues. Her Master degree in Urban Planning, Bachelor degree in Architectural Design, experience of over ten years as urban planner in China and extensive research on CSR provide her with profound insights into the changes in China and how business and society can work together to achieve sustainable development.

Michael Bloomfield, Founder and Executive Director of the Harmony Foundation of Canada, has broad experience with environment, community development and international issues. Since 1985, he has led Harmony to build bridges between business, government and communities on environment and development issues, pioneering work for which the Foundation has been widely recognized. His insights on conflict resolution, cooperative problem solving and ethical decision-making assist many others to take positive action.

The principal authors were delighted that SynTao agreed to join the effort. We acknowledge with appreciation the support of Peiyuan Guo, General Manager of SynTao and the research and writing provided by Jiali An from SynTao for sections of Chapter 2 and Chapter 3.

Ms. Jiali An is a senior research manager at SynTao specializing in CSR and Socially Responsible Investment (SRI) issues. Ms. An has conducted studies ranging from supply chain management to water scarcity and from CSR report assessment to corporate governance. She contributes to several of CSR reports and consultancy projects. Ms. An received her Master's degree in Humanities from the University of Jyvaskyla, Finland. She also holds a BA from the Finance and Economics University of Jiangxi in China.

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CHAPTER 1

OVERVIEW OF CSR

- UNDERSTANDING CSR
- TRANSFORMATIONAL CSR

The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations.

1. Brief History of CSR

In Ancient Mesopotamia (1700BC), King Hammurabi's code said if a builder built a house for someone, and did not construct it properly, and the house which he built collapsed and killed its owner, then that builder should be put to death. This might be the earliest example of business social responsibility in human history.

Modern CSR started in the middle of 20th century. Howard R. Bowen published his seminal book, Social Z •‰}v•]]o]Ÿ • }(šZin 1953, and as a result, he has been called "Father of CSR." In 1963, Joseph W. McGuire stated in his book, Business and Society, Z] }(•}] o Œ •‰}v•]]o]Ÿ • šZ š šZ }Œ‰}Œ Ÿ}v Z • v}š }vo Ç }v}u] v o P o } o]P Ÿ}v• µš] šÇ ÁZ] Z Æš v Ç}v •šZ~•dZ]vo]vPPŸZv]LU îìì ó•X /š]•]u‰}Œš vš š v}š µ• • Œ v]vP š}}o µŒ]vP šZ • Œo] Œ Ÿu •X /v•š U µŒ }v µ•]v •• Œ •‰}v•]]o]Ÿ • š} •}] šÇU Á]šZ o]©o]• µ••]}v }(}vv šZ íõòì•U • vÀ]Œ}vu vš o v •}] o ŸÀ]•š• oo (}Œ Z]PZ Œ •š ‰ Œ(}Œu v U]vš Œ •š]v ^Z u u}Œ ŸÀ X

Then scandals in the late 1980s, on Wall Street and in the USA defense industries, eroded public trust in big business. As more unethical corporate practices were exposed worldwide, scrutiny of corporate behaviour became the norm. Customers organized campaigns against alleged unethical business practices by companies such as Nestle, Union Carbide and General Motors, among others. General Dynamics established the very first corporate ethics office in the USA, after the firm was investigated by the USA government for pricing scams (The Economist, April 2000). Companies reacted to these public campaigns by adopting CSR as risk management and public relation tools. Ever since then, it has largely stayed that way.

By the end of 20th century, three oil industry events -- Exxon's oil spill in Alaska in 1989, Shell's planned sinking of Brent Spar[2] oil platform in 1995 and the execution of nine Ogoni activists due to a perceived "quid-pro-quo" agreement between the Nigerian military and Shell -- triggered an unexpected public backlash against multi-national corporations (Azer, 2001). After that, reports about sweatshops

[2] Brent Spar Á • E}ŒšZ ^ }]o •š}Œ P v š vl Œro}]vP µ}Ç]v šZ Œ vš }]o. o U }‰ Œ š

producing for Nike, Disney and other companie raised further public demands for corporate social responsibility. By 2000, most majo corporations had made some commitment to the principles of CSR; however, as CEOs celebrated CSR's ability to create shareholder value b enhancing brand image, critics became eve more concerned that CSR was less about peo and the planet than it was about public relations and profits" (Azer, 2001).

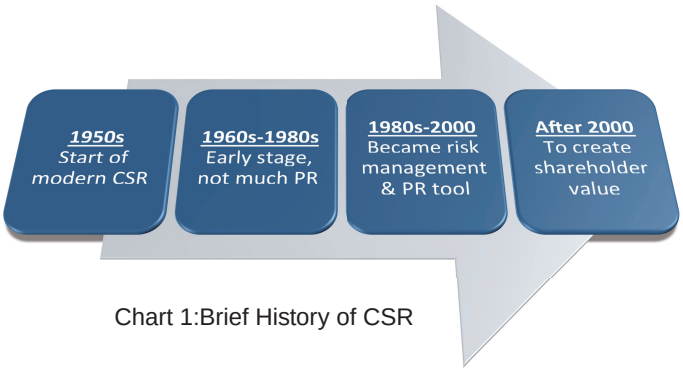

Chart 1:Brief History of CSR

2. Components of CSR

Since the concept of CSR was created, there never has been a clear, widely accepted definition. A few other terms are commonly used, including corporate responsibility, corporate accountability, corporate ethics, corporate citizenship, business sustainability, triple bottom line and responsible business.

Instead of joining the debate on definition, we prefer to focus on the major components of CSR, which generally include the following:

2.1 Environmental protection

Take a precautionary approach to environmental issues and responsibilities; take responsibility for the impact on the environment caused by business, working proactively to improve performance in reducing environmental damage significantly and using natural resources and energy more efficiently throughout all operations.

2.2 Labour health and security

Avoid all forms of forced and compulsory labour; eliminate discrimination with respect to recruitment and employment; treat all workers fairly; uphold the principle of freedom of association and recognize the right to collective bargaining; provide necessary protection for workers and ensure that employee health and safety meets international standards; provide training and career development.

2.3 Human rights

Treat all individuals respectfully, regardless of their background or personal characteristics; avoid all forms of forced and compulsory labour whether directly or indirectly connected to one's own business.

2.4 Stakeholder/community engagement

Understand and respect the needs and concerns of stakeholders and engage them sincerely in decision-making; help with local employment creation, education, social investment, health and other public interests; form partnerships with local organizations and encourage employees to volunteer for community initiatives.

2.5 Business ethics

Ensure accountability, transparency, ethical conduct, compliance with all laws and regulations and respect for stakeholder interests; work against corruption in all forms.

2.6 Corporate philanthropy

Provide disaster relief and invest generously in ongoing social development, culture, education, public and environmental health and safety.

3. Misunderstandings of CSR

The basic principle upon which CSR is based is that companies should contribute to social and environmental benefits that make the world a better place to live. Unfortunately, over the past couple of decades many CSR practices are little more than public relations campaigns designed to build favourable images for companies or to market their products. At a time when world problems such as environmental degradation, poverty, and social injustice are perceived to be more serious than ever, these image building practices are drawing increasing criticism, particularly when important causes are manipulated for commercial purposes.

The question is this: How can we do a better job with CSR to bring about benefits for society as well as for business? For some insight, let's take a look at a few prevalent misunderstandings of CSR, as exhibited in current practice:

3.1 CSR is charity, and my company doesn't make sufficient profit to contribute.

According to the World Business Council for Sustainable Development, CSR "is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large." At the very lowest level, CSR requires businesses to comply with laws and regulations. However, beyond their legal responsibilities, companies also have ethical responsibilities. This means not causing harm to society and the environment, and being accountable if harm should happen to occur. These two levels of CSR are the responsibility of all companies, without exception.

In addition to legal and ethical responsibilities, businesses have a philanthropic responsibility. While it is true that companies need to be profitable to be able to provide financial support for charitable and community programs, even companies at the start-up stage should build a sense of responsibility into their corporate culture, and can do so by providing in-kind or volunteer support to NGOs and charities through employee volunteer programs. Donations of time can be augmented by providing supplies, contacts and introductions.

3.2 Using CSR as a good marketing and public relations tool.

When Milton Friedman published his article "The Social Responsibility of Business Is to Increase its Profits" in the*New York Time*Magazine in 1970, he referred to CSR programs as 'critical window-dressing.' Now that decades have passed, is CSR still window-dressing? Globescan Radar Report 2012 shows that 81% of Canadians think companies use CSR to improve corporate image, not to contribute

to society (Hill+Knowlton Strategies Canada, 2012). CSR has been used as a public relations tool for decades, and this approach is broadly accepted as general business practice. Most companies, when they develop their CSR programs, first consider what the company will get from CSR, such as customer loyalty, brand approval and additional opportunities for new product promotion. Companies want and deserve appreciation for the good they do, but are self-promoting events such as luxurious award ceremonies, media-based grand openings, or use of charities in order to be associated with important causes actually effective in generating public support and respect?

3.3 As long as my company complies with local regulations, I'm a good corporate citizen.

In general, developing countries tend to have lower standards on environmental protection, labour rights, public health and social benefits. All MNCs face the same dilemma, that is, which standard to follow -- local ones in the operating areas which may promise higher profit in the shorter term but also accrue higher risk of future problems, or the highest possible international ones which might cost more but will provide greater benefit to employees, local communities and the environment? The essence of the question is what do you care about more – company profits or responsible citizenship that produces benefits for society and company alike?

As a classic case, let's take a look at Union Carbide's downfall. In 1969, the USA chemical company was encouraged by the Indian government to build a pesticide plant in the city of Bhopal. Instead of abiding by employee health and safety and environmental protection laws in West Virginia, the site of another major plant, Union Carbide set up its pesticide plant in Bhopal, based on India's much weaker legal standards. In 1984, the worst corporate disaster on record happened – tons of lethal methyl isocyanine gas, a chemical used to make pesticides, leaked from storage tanks and descended in a toxic cloud over thousands of unsuspecting residents living near the plant.

Approximately 2,500 people died and hundreds of thousands more were poisoned by the chemical. In 1989, the company was charged $470 million for the damage done. Union Carbide was eventually taken over by Dow Chemical Company. The area around the plant in Bhopal still remains highly toxic and many victims of the incident continue to suffer, inadequately cared for and insufficiently compensated. Union Carbide and its reputation were destroyed because of poor judgment and performance before, during and after the Bhopal disaster.

Now, think again: if a company complies with only the lowest legal requirements, is it a good corporate citizen? Is it a successful business strategy?

3.4 CSR is a political means to improve my company's relationships with government.

In the fall of 2010, the Harmony Foundation held a training session on CSR for about thirty of China's mayors and vice mayors, where Oliver Young from the American Chamber of Commerce (AMCHAM) in China made a presentation to the mayors. He asked the mayors to guess who the foreign invested companies believe are their most important stakeholders. Most mayors guessed "customers." "Interestingly, many companies think that government is their most important stakeholder," Oliver said. Hence, it is not hard to understand why companies want to use CSR as means to improve their relationship with governments.

There is nothing wrong with improving relationships with government through CSR. However, companies need to be cautious and ensure that what the government wants is in the community's best interest. For instance, local government might want to build a new hydro power plant, while the community is strongly against the idea because the construction will not only destroy wild habitat and adversely change people's lifestyles, but also it will cut the river into small lakes and reduce or eliminate access to fresh water.

Transparency and constructive working relationships with community groups are indispensable to effective CSR. Ensuring that important community needs are met is vital to achieving positive outcomes over the long term. Governments come and go but the local community endures.

In an ideal world, CSR would function as a built-in, self-regulating mechanism whereby businesses monitor and ensure their compliance with legal and ethical standards, as well as international codes of conduct. Consequently, businesses would embrace responsibility for the impact of their activities on the environment, consumers, employees, investors, communities and anyone else within their sphere of influence. Furthermore, businesses would promote social good at least as much as their own interests by encouraging healthy, sustainable community development. To achieve that, we need to steer marketing-based Transactional CSR towards society-focused Transformational CSR.

While the term Transformational CSR enjoys wider use, we acknowledge Canadian Business for Social Responsibility (CBSR) for its role in promoting and disseminating its principles. Transformational CSR refers to a proactive strategy to inspire and infuse CSR throughout an organization and to engage stakeholders in a process of leadership and accountability.

In practical terms the distinction lies between proactive and reactive, and whether a company's level of performance can be identified as "compliance, operational, strategic or transformational" CSR. The differences among these four categories are compared in Table 1:

Table 1: Comparison of CSR Performance
(Adapted from CBSR Resource[3])

Performance Drivers	Compliance	K ‰ Œ Ÿ } v o Strategic	d Œ v • (} Œ u Ÿ } v o
	Commitment to CSR		
Leadership Mindset	Defensive	License to operate	Risk & opportunity	/ v • ‰] Œ Ÿ } v o values[4] based
Vision	Jobs ‰ Œ } . š • taxes	Philanthropy Œ • ‰ } v •] o } ‰ Œ ‰ Ÿ } . š o	Sustainable and d Œ] ‰ o } © } u o] v Ç } v } Œ P v] ì Ÿ } v Long-term
Leadership Involvement	^ š + Œ] À & µ v Ÿ } v o } Á v Œ • Z] ‰ Œ } • • & µ v Ÿ } v o	^ Z ‰ Æ µ Ÿ À key stakeholders	CEO
Engagement Approach	Inform	Consult	Involve	W Œ š v Œ l u ‰ } Á Œ
Commitment	/ v š P Œ Ÿ } v } (^ Z		
	Minimal	Ç ‰ Œ } i š } Œ (µ Strategic Plan	CSR metrics drive performance assessment
Ÿ } v	Random programs	Targeted programs	Coordinated program	Programs central to business mission
À o µ Ÿ } v	Minimal	Internal audit	3rd party assurance	Stakeholder assessment
Z ‰ } Œ Ÿ v l	Legal requirements	W µ o] Œ o Ÿ } v • W (µ o] Œ ‰ } Œ Ÿ	Transparency

1. Principles of Transformational CSR

1.1 Values-based Leadership

The UNIDO Report 2002 mentioned the three generations of CSR – practice philanthropic activities, incorporate CSR into the company's integral business strategies, and pursue public good as an intrinsic part of business goals; it is the third generation -- public good -- which transformational CSR embodies.

Harvard professor Michael Porter's concept of "shared value" emphasizes that business must reconnect company success with society progress. Transformational CSR requires that companies address societal and environmental issues from a shared-value perspective, achieving economic success while ensuring social progress and environmental sustainability.

1.2 Commitment of Top Management

Research has clearly shown that sustainability strategies are typically top-down, and that the most effective implementation occurs when senior management is clearly committed to the strategy. Therefore, one member of senior management should be the direct leader of the CSR team, reporting

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[4] The term 'values' means principles or standards of behavior; one's judgment of what is important in life.

directly to the CEO and Board.

In order to initiate and implement a shared-values strategy throughout the organization, the CEO and executives should

- incorporate social and environmental impacts into company decision making at all levels,
- integrate social and environmental values into corporate culture and create incentives to encourage socially and environmentally responsible behaviour, and
- adopt a life-cycle approach in order to identify, measure and manage the social and environmental impacts of corporate activities (Epstein, 2009).

1.3 Focus on long-term sustainability instead of short-term marketing and profit pursuit

Transformational CSR requires long-term strategic priorities that weave throughout the entire organization, and ensures that employees are aware of and involved with the company's overall CSR strategy. Transformational CSR balances shareholder and corporate interests with social and environmental responsibility and investment.

1.4 Empowerment of stakeholders

Transformational CSR requires not only making stakeholders aware of company decisions or accomplishments, but also engaging them in decision-making and problem solving. Stakeholders should have regular opportunities to express their opinions and offer suggestions on the company's products and services, community investment and overall performance -- social and environmental as well as economic.

1.5 High accountability and transparency

Besides issuing public reports on CSR, Transformational CSR asks companies to provide accountable and consistent information on an ongoing basis. Transparency is essential for not only public trust but also for accountability in business practice and management. Success and ongoing improvement require high levels of both transparency and accountability.

1.6 Tangible and assessable goals

In addition to financial targets, companies should establish specific social and environmental goals with assessable indicators, such as carbon emission reduction, amount of water conserved, number of graduates from sponsored education programs, successful civil society relationships, etc. They must also create systems to ensure that they meet these goals as carefully as they would develop systems to monitor progress on financial targets.

2. Benefits of Transformational CSR

A consistent and systemic CSR strategy will bring a company long-term benefits that include the following:

2.1 Enhanced reputation and brand loyalty

These do not arise from short-lived advertising and media campaigns, but from broad and long-lasting stakeholder loyalty and societal support due to the company's contributions to society and the

environment. An increasingly sophisticated public supports sincere investment in society and rejects "green washing" and other forms of artificial image building.

2.2 Privilege of getting operating approval from key stakeholders

In Edelman's Trust Barometer 2007 report, based on a survey of 3100 educated and prosperous people from 18 countries in Europe, North America and Asia, over 74% of people refused to buy products or services from companies they don't trust.[5] Companies who voluntarily reduce negative environmental impacts through innovative products and services, who contribute to societal justice and community development and who demonstrate strong social responsibility, gain trust and appreciation from government and society as well as employees, investors and customers.

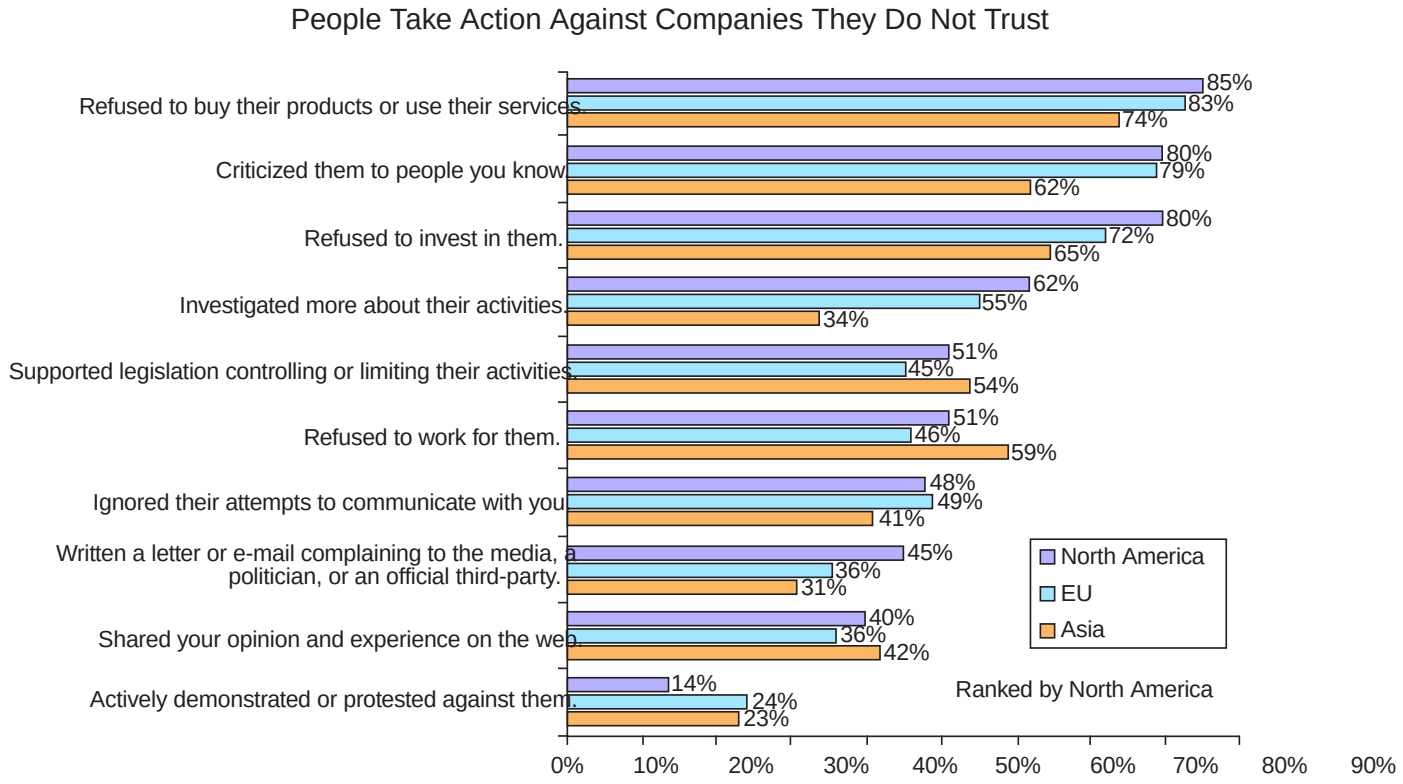

Chart 2: People Take Action Against Companies They Don't Trust (Resource: Edelman Trust Barometer 2007)

2.3 Attracting and retaining talent

According to a global workforce study by Towers Perrin, CSR is the third most important driver of employee engagement and retention. (TIME, May 28, 2012)

2.4 Healthy, educated communities with clean environments

These are the cornerstones of a stable society, a place where business can thrive for a long time. Moreover, businesses gain many benefits. They spend less on health problems, cleaning up the air, remediating degraded land and water, and they have greater access to well-trained workers and well-

[5] Z©‰WIIÁÁÁX•o] •Z Œ Xv šl‰l ooÇl ou vršŒµ•šr Œ}u š Œr]Œ o v

educated professionals. A degraded society, whether it is the result of conflict, negligence or neglect, certainly is not an ideal place for business or life. In contrast, prosperous, healthy societies provide other considerable benefits to business including tax incentives, research and development funding and infrastructure.

2.5 Benefits from positive stakeholder relations

Transformational CSR values the opinions of all stakeholders, not just shareholders. Through regular and efficient engagement, companies develop and maintain positive relations with staff, investors, customers, partners and society in general. A Harvard University study found that stakeholder-oriented companies showed four times the growth rate and eight times the employment growth compared to companies that are heavily or entirely shareholder focused (Kotter and Heskett, 1992).

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Time Magazine (May 28, 2012), Why Companies Can No Longer Afford to Ignore Their Social Responsibilities, from
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CHAPTER 2

CSR in CHINA

- BRIEF HISTORY OF CSR IN CHINA
- STATE OF CSR IN CHINA
- CSR RELATED LAWS AND GUIDELINES IN CHIN

Serious social and environmental issues and greater public participation have increasingly raised expectations that companies in China should meet global standards for CSR and contribute their fair share to education, social development and environmental protection.

China has the fastest-growing economy in the world. With an average Gross Domestic Product (GDP) growth rate averaging 10 percent over the past 30 years, China surpassed Japan in 2010 and became the Á}Œo [• • }v ro ŒP •š }v}uÇ L Œ šZ h^X Z]v]• v} o}vP Œ šZ ‰}• vÀ]Œ}vu vš o •š v Œ •U µš Z • PŒ}Áv š} l Ç ‰o Ç Œ]v šZ Po}]oo]}v v Œ]•]vP }u •Ÿ u v U šZ Z]v • u Œl š ©Œ š h^ ¨íìñXó in 2010, 17.4% more than a year earlier (Bloomberg, 2011). China's trade surplus expanded to USD $13.05 billion in May 2011, according to China Customs.[6] Exports, mainly from trade with the USA and Europe, recorded a 19.4% year-on-year growth, and imports also soared 28.4% from a year earlier (Jackson, 2011). While China remains the centre of the world's manufacturing, it has become much more.

The rise of the Chinese economy has put China front and center on the global stage of the business Á}Œo X š šZ • u Ÿu U • Œ]}µ• •}] o v vÀ]Œ}vu vš o]••µ • v P increasingly raised expectations that companies in China should meet global standards for CSR and }všŒ] µš šZ]Œ ( ]Œ •Z Œ š} µ Ÿ}vU •}] o À o}‰u vš v vÀ]Œ

CSR is a relatively new, but rapidly emerging, concept in China. Along with modernization and rapid economic growth over the past 20 years, companies in China are gradually shifting away from focusing entirely on profit maximization, toward more attention on business ethics and meeting their responsibilities for addressing social and environmental issues. The principles of CSR and rising public expectations encourage companies to go beyond the minimum requirements regarding product safety, environmental protection, labour rights, and community development imposed by the government. It also requires companies to respect all stakeholders, including employees, consumers, suppliers, and local }uuµv]Ÿ •U v š}]v }Œ‰}Œ š šZ • Æ‰ š Ÿ}v•]vš} šZ }u‰ vÇ[• |

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1. Introduction Stage: 1990s to 2000

Before the economic reforms of the 1990s, the Chinese "command economy" was under a strict policy of "central

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gradually shifted their manufacturing locations, making China the “world’s factory.” Hundreds and thousands of original equipment manufacturers (OEMs) made products for their overseas customers
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CSR began in China during the 1990s by MNCs as part of their supply chain management. During this period, CSR requirements from MNCs mainly focused on labour conditions and supply chain management. For instance, in 1990s, Reebok imposed its labour-related codes of conduct, the “Reebok Human Rights Production Standards,” on its suppliers in China. However, to mitigate the negative effect of increased production costs on its profit margin, local management often sought less costly
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During the process of supply management, MNCs enlisted their Chinese producers and suppliers to
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occasional seminar. In most cases their commitment was weak.

Therefore, Chinese supply companies were compelled to comply with CSR norms imposed by MNCs,
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of CSR to China, people treated the concept quite defensively and regarded CSR as “a new type of trade
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Labour Law (passed in 1994).

2. Observation Stage: 2000 to 2006

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But attitudes were changing in the academic world. Scholars started to debate in public whether
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Corporate Social Responsibility and Chinese Society.[7] Many Tsinghua University’s Research Center for

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Contemporary China, a subsidiary of the Department of Sociology, drew great attention from the Chinese media and society. The researchers examined MNCs' CSR and SA8000, an auditable social

companies to "act in good faith, accept the supervision of the government and the general public, and

3. Development Stage: since 2006

Now the pressure to pursue CSR came from both within and outside of China. Externally, Chinese the request of western-based MNCs and foreign governments. Chinese companies had to show that they were meeting minimal standards in the production process in order to participate in the global

In 2006, sixty-six members of the Executive Committee of Foreign Investment Companies (ECFIC), a in which they agreed to promote MNCs' CSR in China and commit to the harmonious development of employment, employee rights, environmental stewardship, social welfare, corporate information

In 2007, more than 1400 MNCs in China published Written Proposal for Fulfilling Social Responsibilities, advocating compliance with regulations and laws, high product and service quality, employee protection, harmonious employment relationships, biological environment protection and

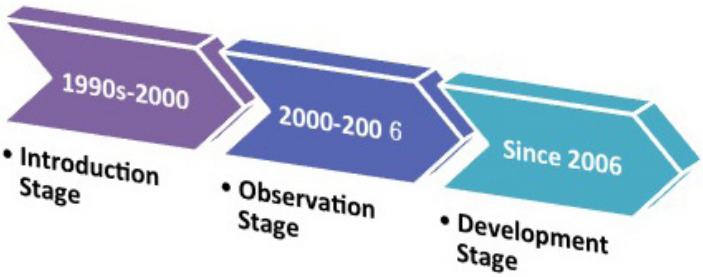

Chart 3: CSR Development in China

some remained skeptical, the general public's attitude towards CSR gradually became more positive. Companies were enthusiastic about using this new public brands. It was considered fashionable to be for society were modest at best.

1. More Related Laws and Regulations

On May 12, 2008, a deadly earthquake hit China's Sichuan province, killing about 70,000 people and leaving millions homeless. This natural disaster triggered the rapid expansion and development of CSR in China. After the tragedy, Chinese society was extremely disappointed by the small amount that MNCs donated, compared with the philanthropic behavior of Chinese companies, and called them "iron

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In 2008, the state-owned Assets Supervision and Administration Commission of the State Council (SASAC) announced its Corporate Social Responsibility Guidelines for Central Level State-Owned Enterprises š} v }µŒ P •š š r}Áv vš Œ‰Œ]• • ~^K • š} ‰ ŒŸ]‰ š
2008, the Ministry of Commerce issued CSR Guideline for Foreign Investment Companies (draft).
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2. Maturing Chinese companies

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As customer and investor awareness grew, people started to embrace the concept of CSR and they increasingly demanded that companies be socially and environmentally responsible. Subsequently, the
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By 2009, over 55,000 Chinese companies were certified under the ISO14001 environmental

management system standard, which exceeded certifications in the rest of the top ten countries combined.

Meanwhile, different global standards and indicators, such as the United Nations Global Compact website, 272 Chinese companies have joined the UN Global Compact since 2000, which is more than (UN, 2012a).

3. Growth in CSR Reporting

Since the first CSR report, by the State Grid Corporation of China, more and more companies have jumped on the bandwagon of CSR reporting. SynTao's recently published Research on CSR Reporting in China 2011 shows that the number of CSR reports published in China increased from 23 in 2006 to 1001 in 2011. Over 60% of the CSR reports were from SOEs while 182 out of 1001 were from foreign-invested or Sino-foreign joint venture enterprises. While the number of CSR reports from all industries (SynTao, 2011).

Although the number of CSR reports is rising, on average, the quality of the CSR reports issued by

4. Trends of CSR development in China

and are using CSR to address social and environmental issues during the current economic and social 2012).

On the road towards better CSR practice, NGOs are playing a stronger role in social and environmental practices. According to the Chinese Ministry of Civil Affairs, as of 2008, China had around 400,000 registered NGOs and probably close to 3 million, based on unofficial

estimates. Socially focused NGOs provide direct services to impoverished rural areas and urban communities, and to people with disabilities. Environmental NGOs are important in raising public awareness and participation and improving conditions. They offer invaluable input to environmental decision-making and they help business, government and community groups work together on practical projects. MNCs, local government and NGOs have started to work together on moving CSR beyond good intentions to social and environmental progress (Zadek, Forstater & Yu, 2012). However, one must be careful to distinguish between legitimate NGOs

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to social morality and business ethics, act in good faith, subject itself to the government and the public supervision, and undertake social responsibility" (NPC, 2005).

The 2006 Company Law laid a good foundation for CSR practice in China. Although encouraging CSR practice is not the major reason for the Company Law revision, CSR can be found implicitly in other relevant laws such as the Environmental Protection Law (1989), Consumer Protection Law (1994), Labour Law (1995), Trade Union Law (2001) and Labour Contract Law (2008).

2. SASAC Guidelines

The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council supervises and manages the state-owned assets of enterprises under the supervision of the Central Government, excluding financial enterprises. In 2008, SASAC announced the Corporate Social Responsibility Guidelines for Central Level State-Owned Enterprises and explicitly requested the wide
‰Œ Ÿ }(^Z ~^ ^ U îìì ô•X

Since most large companies in China are state-owned, the SASAC guideline revealed the Chinese central government's official position toward CSR. It conveyed its message in four parts: CSR is a concrete
u •µ Œ }(‰Œ }u}Ÿv P •}] o Z Œu}v Ç V]u‰ o u vš Ÿ}v }(^Z]•]u‰ }Œ
CSR is the unavoidable option for sustainable development; and CSR is a necessity for the SOEs to
‰ Œ Ÿ]‰ š]v šZ]v š Œ v Ÿ}" (Liu, 2008; SASAC, 2008).] šÇ

3. SEPA Guideline for Green Security

In February 2008, China's State Environmental Protection Administration (SEPA) issued the Guideline

for Green Security. Thirteen categories of environmentally sensitive industries were put under strict supervision. These industries are thermal power, metallurgy, chemical industry, petrochemicals, coal, building materials, papermaking, beverage manufacturing, pharmaceuticals, fermentation, textile, fur and mining. Any companies fitting into these categories must pass a special inspection by the o} o vÀ]Œ}vu vš o ‰Œ}š Ÿ}v u]v]•šŒ Ÿ}v (}Œ ‰‰oÇ]vP (}Œ Œ ‹µ]Œ • o]•š }u‰ v] •]v vÀ]Œ}vu vš ooÇ • v•]ŸÀ]v µ•šŒ] • š šZ }u‰ v] •[ ]• Œ Ÿ}v }v Œ Pµo Œ •]•U µš u v š}ŒÇ]• o environmental events happen (Lin, 2009; SEPA, 2008). This was an important step forward despite the ‰}••] o Œ]•l }( ]v ‰}o]Ÿ o]vš Œ(Œ v]v o} o vÀ]Œ}vu vš o ‰

4. CBA CSR Guidelines

Kv : vµ ŒÇ íîU îìì õU šZ Z]v v l]vP ••}] Ÿ}v ~ •U • o(rŒ Pµ China issued }Œ‰}Œ š ^}] o Z •‰}v•]]o]šÇ 'µ] o]v • (}Œ &]v]o /v This guideline recommended that CSR reports should include economic responsibility, social responsibility, and environmental responsibility (CBA, 2009).

5. CSRC Announcement [2009]

/v u Œ îìì õU šZ Z]v ^ µŒ]Ÿ • Z Pµo š}ŒÇ }uu]••]}v ~ ^Z • and Exchange Committee (SEC) in the USA, released a document -- Announcement [2009] No.34: Guidance Announcement on the proper preparation of 2009 Listed Company Annual Reports and Related Tasks, which encouraged Chinese listed companies to disclose annual CSR reports together with annual reports in 2010 (CSRC, 2009). Similarly, CSRC's Announcement [2010] No.37 Guidance v v}µv u vš }v šZ ‰Œ}‰ Œ ‰Œ ‰ Œ Ÿ}v }(îìíì >]•š }u‰ vÇ Œ o •]v u Œ îìíìU À} š vZ v u vš }(^Z]v]Ÿ ŸÀ •U v]v(}Œu Ÿ}v]v }Œ v Á]šZ šZ o Á ~ ^Z U îìíì•X

6. Stock Exchange Guidelines

Shenzhen Stock Exchange (SZSE) CSR Guideline

In September 2006, the Shenzhen Stock Exchange (SZSE) posted its CSR guidelines for listed companie covering stockholder and creditor protection, employee protection, supplier, client and consumer ‰Œ}š Ÿ}vU vÀ]Œ}vu vš o ‰Œ}š Ÿ}v v •µ•š]v o À o}‰u všU (SZSE, 2006). The Guide is promulgated on the Company Law and the Securities Law with purposes of achieving scientific development, building a harmonious society, advancing toward economic and •}] ooÇ •µ•š]v o À o}‰u všU v ‰Œ}u}Ÿv (Lin, 2009; SZSE, 2006).] o C

Disclosure was initially voluntary, but the Shenzhen Stock Exchange changed its policy in 2008 and required mandatory disclosure for all companies in the SZSE 100 index. However, listed companies that Œ v}š]v oµ]v šZ ^•^ íìì]v Æ v •Ÿoo Z}}• ÁZ šZ Œ }Œ v}

^š} l Æ Z vP X L Œ }oo ŸvP šZ ^Z Œ ‰}Œš•U šZ ^Z vÌZ v ^š} l
Á •]š µv Œ šZ ^o]•š }u‰ vÇ]v(}Œu Ÿ}v]• o}•µŒ _ • Ÿ}vX

Shanghai Stock Exchange (SSE) CSR Guideline

In May 2008, the Shanghai Stock Exchange (SSE) released its own Guidelines for Disclosure for Companies Listed on the Shanghai Stock Exchange and Notice on Strengthening Social Responsibility of Listed Companies, requiring listed companies briefly to disclose publicly any]v(}Œu Ÿ}v Œ o š š} •}] šÇU šZ vÀ]Œ}vu vš v šZ }v}uÇU }Œ (SSE, 2008).

The Shanghai Stock Exchange requires mandatory CSR report submission from three types of companies: companies in the financial industry such as banks and insurance companies; companies who are components of SSE's Corporate Governance Index[8]; and companies cross-listed on overseas markets, e.g. Hong Kong, NYSE, NASDAQ, and London etc. If a company does not fit into any of the three types, CSR disclosure is voluntary. Similarly, the Shanghai Stock Exchange collects the CSR reports and posts them online.

List of CSR Related Laws in China

NAME OF THE LAW	YEAR OF PUBLISHING/REVISING
vÀ]Œ}vu vš o W Œ}š Ÿ}v > Á	íõôõ
Trade Union Law	1992
Product Quality Law	1993
P]v•š hv( ]Œ }u‰ ŸŸ}v > Á	íõõï
}v•µu Œ W Œ}š Ÿ}v > Á	íõõï
Labour Law	1994
vÀ]Œ}vu vš o E}]• W}ooµŸ}v W Œ À v[ðõò > Á	
t o(Œ }v Ÿ}v > Á	íõõõ
D Œ]v vÀ]Œ}vu vš o W Œ}š Ÿ}v > Á	íõõõ
]Œ W}ooµŸ}v W Œ À vŸ}v > Á	îìì ì
Foreign Equity Joint Venture Law	2001
K µ‰ Ÿ}v o]• • W Œ À vŸ}v > Á	îìì í
W Œ} µ Ÿ}v ^ (šÇ > Á	îìì î
t}u v[• Z]P Z š• v /vš Œ •š• W Œ}š Ÿ}v[ìì>ñ Á	
Renewable Energy Law	2005
Company Law	2005
Enterprise Income Tax Law	2007
Labour Contract law	2007
v ŒP Ç }v• Œ À Ÿ}v > Á	îìì ó
Food Safety Law	2009
Social Insurance Law	2010

[8] The SSE Corporate Governance Index includes companies with best corporate governance performance listed on the Shanghai Stock Exchange. This index is adjusted every July, and it has 276 companies following the July 2012 adjustment.

>]•š }(^ZrZ o š Z Pµo Ÿ}v• ˜ 'µ] o]v •]v Z]v

REGULATIONS	YEAR OF PUBLISHING
• WŒ}Z]]ŸvP šZ h• }(Z]o > }µŒ Z Pµo Ÿ}v	îìîî
• D]v]uµu t P Z Pµo Ÿ}v ~D]v]•šŒÇ }(> }µŒ v ^}] o íìì ðµŒ]šÇ•	
• ^š š }µv]o[• u]v]•šŒ ŸÀ Z Pµo Ÿ}v• }v &}µv Ÿ}v• îìîð	
GUIDELINES	
• ^}] o Z •‰}v•]]o]šÇ /v•šŒµ Ÿ}v• š} >]•š }u‰ v] • ~íì•ìíò •	
• 'µ] o]v • }v >]•š }u‰ v] •[vÀ]Œ}vu vš o /v(}Œu Ÿ}vìì]ô• o}•µŒ ~	
• CSR Guidelines for Central Level State-Owned Enterprises	2008
• Guideline on Enhancing the Supervision and Management of Environmental WŒ}š Ÿ}v (}Œ >]•š }u‰ v] • ~ Z]v [• ^ W •	îìîô
• ^Z 'µ] o]v • (}Œ &]v v] o /v•ŸšµŸ}v•]v Z]v ~ •	îìîõ
• SASAC Guideline	2010
• CASS CSR Guideline 2.0	2012

vµu Œ }(Œ ‰}ŒŸvP Pµ] o]v • • ŒÀ • (Œ u Á}Œl• (}Œ ^Z Œ ‰}
o À oU šZ u}•š v}š o Œ šZ hv]š E Ÿ}v 'o} o }u‰ š v šZ 'o
Kv šZ }u •Ÿ o À o šZ u}•š]u‰}Œš vš }v]• ^^r ^Z îXì À o}‰
CSR at the Chinese Academy of Social Sciences (CASS).

1. UN Global Compact

> µv Z]v :µoÇ îìììU šZ hE 'o} o }u‰ š]• šZ Á}Œo [• o ŒP •š
]v]Ÿ ŸÀ Á]šZ }À Œ ôìì ‰ ŒŸ]‰ vš•]v u}Œ šZ v íðì }µvšŒ] •X dZ
a set of ten principles that cover issues including human rights, labour standards, the environment and
vŸr }ŒŒµ‰Ÿ}vX dZ Œ Œ šÁ} ‰Œ]u ŒÇ P} o• ŒŸ µo š]v šZ
š v ‰Œ]v]‰o •]v µ•]v •• ŸÀ]Ÿ • Œ}µv šZ Á}Œo v š} š oÇì
P} o•U]v oµ]vP šZ D]oo vv]µu À o}‰u vš '} o•X /š]• v}š •š v
performance by using predefined indicators; rather, it is a voluntary, principle-based initiative.
Companies that join the UN Global Compact are expected to implement, disclose, and promote the ten
µv]À Œ• o ‰Œ]v]‰o •X ,}Á À ŒU ‰ ŒŸ]‰ ŸvP }u‰ v] • Œ v}š
~hEU îìííî •U v šZ Ç Z À PŒ š G Æ]]o]šÇ]v Œ ‰}ŒŸvP }v šZ]Œ
openly about their progress. At this time, 272 companies from China participate in the UN Global
}u‰ šU Á]šZ šZ Œo] •š ‰ ŒŸ]‰ Ÿ}v } µŒŒ]vP]v îìì ~hEU îìíî

dZ hE 'o} o }u‰ š Z •]š• Œ]Ÿ •X ošZ}µPZ]š ©Œ š• šZ ‰ ŒŸ
‰Œ]v]‰o • ŒPµ oÇ Œ š}} Œ} v À Pµ]v ‰Œ Ÿ ~<vµ • vU
•Ç v •}u }u‰ v] • Z À •]Pv šZ hE 'o} o }u‰ š Á]šZ}µš ‰Œ
& Pouliot, 2006). Furthermore, the UN Global Compact is not a regulatory instrument but a voluntary
]v]Ÿ ŸÀ šZ š Œ o] • }v ‰µ o] }µvš]o]šÇU šŒ v•‰ Œ and Ç v]•
šZ ‰Œ]v]‰o • Œ Á]šZ}µš]v]vP u Z v]•u• š} Z}o }Œ‰}Œ Ÿ}v
"blue washing[9] with UN approval (Knudsen, 2011; UN, 2011). Finally, the UN Global Compact doesn't
provide clear performance measures (Knudsen, 2011). To make the UN Global Compact more useful in
‰Œ Ÿ v u}Œ Œ] o U]v]vP u Z v]•u• v šŒ v•‰ Œ vš Œ ‰}

[9] oµ rÁ •Z]vP u v• }À Œ]vP]v ‹µ š ‰ Œ(}Œu v Á]šZ •]oÇ } š]v ŒŸ. Ÿ}vX

UN Global Compact Ten Principles

HUMAN RIGHTS

íX µ•]v •• • •Z}µo •µ‰‰}Œš v Œ •‰ š šZ ‰Œ}š Ÿ}v }( ]vš Œv

2. Make sure that they are not complicit in human rights abuses.

LABOUR STANDARDS

ïX µ•]v •• • •Z}µo µ‰Z}o (Œ }u }(••}] Ÿ}v v + ŸÀ Œ }Pv]Ÿ

bargaining.

ðX dZ o]u]v Ÿ}v }(oo (}Œu• }((}Œ v }u‰µo•}ŒÇ o }µŒX

ñX dZ + ŸÀ }o]Ÿ}v }(Z]o o }µŒX

òX dZ o]u]v Ÿ}v }( ]• Œ]u]v Ÿ}v]v Œ •‰ š }(u‰o}Çu vš v }

ENVIRONMENT

óX µ•]v •• • Œ •l š} •µ‰‰}Œš ‰Œ µŸ}v ŒÇ ‰‰Œ} Z š} vÀ

ôX hv Œš l]v]Ÿ ŸÀ • š} ‰Œ}u}š PŒ š Œ vÀ]Œ}vu vš o Œ •‰}v

õX v }µŒ P šZ À o}‰u vš v]+µ•]}v }(vÀ]Œ}vu vš ooÇ (Œ]

ANTI-CORRUPTION

íìX µ•]v •• • •Z}µo Á}Œl P]v•š }ŒŒµ‰Ÿ}v]v oo]š• (}Œu•]v oµ

2. Global Reporting Initiative (GRI)

dZ 'o} o Z ‰}ŒŸvP /v]Ÿ ŸÀ ~'Z/• Pµ] o]v • u• š} }À Œ }u •}u of the UN Global Compact. Founded in 1997, GRI is a non-profit organization that works towards a sustainable global economy by providing sustainability reporting guidance. GRI has developed a comprehensive sustainability-reporting framework, which has become a widely accepted global •š v Œ }(•šd‰ŒšZŸ]ŒX À Œ•]}v }(šZ 'Z/ Pµ] o]v ~'ï• Á • o µv than 3,000 experts participating in its development. The current 3.1 version of the GRI guideline, its •µ•š]v]o]šÇ Œ ‰}ŒŸvP (Œ u Á}ŒlU Á • .v]•Z]v D Œ Z îìííX /š gender, community and human rights-related performance (GRI, 2012a).

GRI guidelines provide a detailed list of what should appear in a sustainability report. It includes Strategy and Profile, Economic, Environmental and Social Performance, which consists of Labour Practices and Decent Work, Human Rights, Society and Product Responsibility. One inherent problem is that }u‰ v] • µ•]vP 'Z/ Œ ‰}ŒŸvP (Œ u Á}Œl Œ (Œ š} Z}}• ÁZ š }v šZ o À o }(‰µ o]]• o}•µŒ U šZ Ç • o(r o Œ šZ ‰‰o] Ÿ} ^‰oµ•_ ~=•]• À]o o š Z o À o](Æš Œv o À Œ]. Ÿ}v Á • µ ‰o vv]vP š} v o šZ • o(r À oµ Ÿ}v ‰Œ Ÿ]v šZ (}µŒšZ À Œ•]

In 2012, 463 companies in mainland China and Hong Kong followed the GRI guidelines, with the earliest •š ŒŸvP]v îììíU v šZ vµu Œ }(}u‰ v] • Z •]v Œ • À ŒÇ Ç Œ ~ CSR reports from companies following GRI guideline is higher than those who do not; they meet more detailed

reporting requirements on social, economic and environmental responsibilities. Companies in financial and
vÀ]Œ}vu vš ooÇ • v•]ŸÀ]v µ•šŒ] • š v š} u}Œ]vš Œ •š]v Œ ‰}ŒŸv
Chinese companies are somewhat disadvantaged because it is more difficult for them to adopt international guidelines such as UN Global Compact and GRI guidelines without cultural adaption. For example, the first two principles of the UN Global Compact are related to human rights, which are approached differently in China, compared to western countries. Another deterrent in China is that following GRI guidelines is considered a demanding task that is seen as a luxury for most Chinese
}u‰ v] •X t]šZ À ŒÇ o]©o]v vŸÀ U šZ }u‰ v] • Œ o •• o]l oÇ š
the knowledge and expertise to understand GRI guidelines and adopt them for their organizations. Without pressure from government, the public and other stakeholders, very few companies are willing
š} (}oo}Á 'Z/ À}oµvš Œ]oÇX ,}Á À ŒU šZ]• u Ç •}}v Z vP µ• }(
Z]v • }u‰ v] • ÁZ v šZ Ç }‰ Œ š }À Œ• •U • Á oo • Œ]•]vP }u

dZ }u •Ÿ (Œ u Á}Œl (}Œ ^Z]v Z]v u]vš} Æ]•š v š} Z o‰ }
‰‰oÇ]vP]vš Œv Ÿ}v o Pµ] o]v •U v o š ŒU š} v o Z]v • }u%
stock exchanges.

3. CASS-CSR Guideline

Although the Shanghai and Shenzhe
Stock Exchange guidelines built the
(}µv Ÿ}v }(^Z Œ ‰}ŒŸv
•] }vš vš• (}Œ Z]v U š
general in practice and only focused or
listed companies. In addition, many CS
reports from Chinese companies are toc
“sketchy” or unclear in terms of theme
and framework, and somewhat random in
terms of content, due to lack of practical
CSR reporting guidelines. Therefore
the Research Center for CSR at th
ChineseAcademy of Social Sciences (CAS
published its CASS-CSR 1.0 guideli
in 2009 to help state-owned Chinese
companies more effectively structure

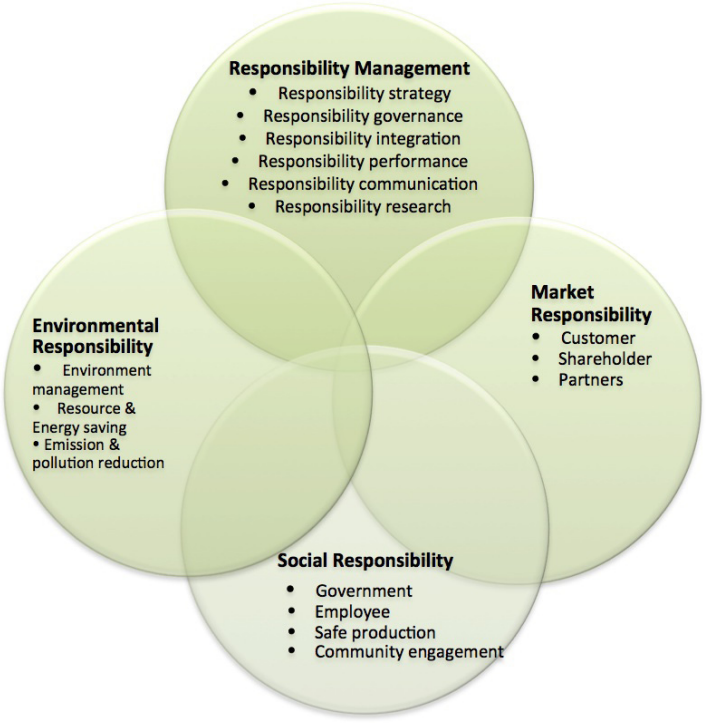

Chart 4: Four-in-One Model (CASS-CSR 2.0)

šZ]Œ ^Z Œ ‰}ŒŸvPX ^]v šZ vU ^^ Z • }vŸvµ š}]u‰Œ}À šZ
]vš Œv Ÿ}v o •š v Œ • v o} o v •U v]š ‰µ o]•Z ^^r ^Z îXì
2011, over 60 companies stated that they followed CASS-CSR 2.0 in their CSR reports, including SOEs,
}u •Ÿ ‰Œ]À š }u‰ v] • v •}u (}Œ[10]Pv]vÀ •š }u‰ v] •X

}µ‰o }(Z]PZo]PZš• (Œ}u ^^r ^Z îXì Œ Á}ŒšZÇ }(© vŸ}v Z Œ

[10] Z©‰WIIv Á•X‹‹X }ul lîìíîìðìòlìììôôóXZšu

Á Z] Z] • • } v š Z ^ š Œ] ‰ o } © } u o] v _ See Chart 4: The Four-in-One } v ‰ š
model integrates responsibility management and social, environment and economic responsibility into one, with emphasis on the importance of responsibility management, which includes responsibility
• š Œ š P Ç U Œ • ‰ } v •]] o] š Ç P } À Œ v v U Œ • ‰ } v •]] o] š Ç] v š P Œ Ÿ } v
communication and responsibility research. CASS-CSR 2.0 includes 21 responsibility management
] v] š } Œ • } À Œ] v P ^ Z • š Œ š P Ç U P } À Œ v v U] v š P Œ Ÿ } v U ‰ Œ
The other highlight is that CASS-CSR2.0 fully considers the characteristics of different industries and provides supplementary indicators for 46 industries (CASS-CSR 2.0).

Now, CASS is undergoing revision of CASS-CSR 2.0 and will publish CASS-CSR 3.0 in the spring of 201
d Z À v š P } (^ ^ o Œ • Z] ‰ } v ^ Z Œ ‰ } Œ Ÿ v P] v Z] v] • š Z š
• v } v r ‰ Œ } . š u] P v Ç u } Ÿ À š Ç ‰ µ o]] v š Œ • š U v } š Ç

1. Social Accountability 8000 (SA8000)

In 1997, Social Accountability International (SAI), a NGO based in New York, launched SA8000, a voluntary standard for workplaces, based on International Labour Organization (ILO) and UN
}vÀ vŸ}v•X

It has nine aspects:

child labour
Z ošZ v • (šÇ
]• Œ]u]v Ÿ}v
Á}Œl]vP Z}µŒ•

forced labour
(Œ }u }(••}] Ÿ}v v Œ]PZš š} }oo ŸÀ
]•]‰o]v ŒÇ ‰Œ Ÿ •
Œ uµv Œ Ÿ}v u v P u vš •Ç•š u•

SA8000 was introduced to China at the end of 2003, and it had a significant impact in the very early stages of China's CSR development. SA8000 was first considered a trade barrier imposed by MNCs; therefore, it caused great repercussions. In fact, in 2004, the Certification and Accreditation
u]v]•šŒ Ÿ}v ~ • }(WZ •] šZ š ^ ôìì ŒŸ. [11]Ÿ}v Á • v}š •µ]š o

,}Á À ŒU šZ]• µ••]}v }À Œ ^ ôìì u}vP u] • v }šZ Œ]vGµ vŸ
}voÇ]všŒ} µ šZ]vš Œv Ÿ}v o ^Z]v]Ÿ ŸÀ]vš} Z]v U µš o•} š µ
had become an important component for business sustainable development. SA8000 is also became a very important reference for some of China's CSR standards and guidelines, such as CSC 9000T.

Ç šZ šZ]Œ ‹µ Œš Œ }(îìííU ðíì }u‰ v] •]v Z]v Z Œv šZ ^

2. ISO26000

ISO26000 is an internationally accepted voluntary guidance for social responsibility, but not a certification or regulation. Companies can choose the parts they believe are most reasonable and
+ ŸÀ š} (}oo}ÁX /^Kîòìì Œ •• • • À v }Œ šZ u • }(•}] o Œ •‰}

[11] Z©‰Wll.v v X•]v X }uX vlilîìì ðíìíìílíîìôíííîõñîX•Zšuo

- K Œ P v] Ì Ÿ } v P } À Œ v v
- > } µ Œ ‰ Œ Ÿ •
- &] Œ } ‰ Œ Ÿ v P ‰ Œ Ÿ •
- Community involvement and development.
- Human rights
- The environment
- Consumer issues

ISO26000 was published in Chinese near the end of 2011. According to a subsequent survey of 2011 S W } • š r W µ o] Ÿ } v Ÿ À] Ÿ • Z, more and more Chinese companies have come to know and accept ISO26000, and the Chinese government is planning to develop nationally suitable social Œ • ‰ } v •]] o] š Ç • š v Œ • U] v o µ] v P ^ u } š Z Œ _ • š v Œ • } v / ^ • š v Œ • U • µ Z • À o µ Ÿ } v U • }] o Œ • ‰ } v •]] o] š Ç Œ ‰ } Œ Ÿ v P U [12]

3. China Social Compliance 9000 for Textile and Apparel Industry (CSC9000T)

CSC9000T is the first industrial CSR standard in China. SAI, the organization that launched SA8000, ‰ Œ š v Œ Á] š Z š Z Z] v E Ÿ } v o d Æ Ÿ o v ‰ ‰ Œ o } µ v] o ~ E v ‰ Œ } u } š • }] o] o } P µ] v Á } Œ l ‰ o • } (š Z ‰ ‰ Œ o l š Æ Ÿ o CNTAC formulated CSC9000T, based upon Chinese laws and regulations and relevant international } v À v Ÿ } v • U • Á o o • o] P v] v P Á] š Z Z] v • µ o š µ Œ o ‰ © Œ v • V] v

CSC 9000T covers twelve aspects:

D v P u v š ^ Ç • š u •] • Œ] u] v Ÿ } v
d Œ h v] } v • ~ } o o Ÿ À Œ P] v] v P Z] o > } µ Œ ~ : µ À v] o t } Œ l Œ •
Forced or Compulsory Labour | Employment Contracts | Wages and Welfare
, Œ • • u v š v µ • K µ ‰ Ÿ } v o , o š Z v ^ (š

In June 2008, CNTAC released the China Sustainability Reporting Guidelines for Apparel and Textile Enterprises (CSR-GATE), China's first sustainability reporting guidance system to guide the social Œ ‰ } Œ Ÿ v P ‰ Œ Ÿ } (š Æ Ÿ o } u ‰ v] • X [13]

4. Call for a Chinese National CSR Standard

t] š Z u v Ç ^ Z (Œ u Á } Œ l • l • š v Œ • À o } ‰ Ç • • }] š] } v • U] v š Z Œ] • v] v Œ •] v P u v (} Œ Z] v • v Ÿ } v o ^ Z • š v Œ • š Z š

With the Chinese government and industry increasingly engaged in international standard setting, Z] v • ^ Z • š v Œ • Œ } v À Œ P] v P Á] š Z [• v š } Œ u Ÿ o] w o] v v • } Ÿ Ÿ v } v À Œ P v Á] š Z] v š Œ v Ÿ } v o ^ Z • š v Œ •] • š } À }] š Z] u ‰ } • Á] š Z Z] v • o P o v ‰ µ o (Z a d e ‰ F o r s t a g e r ‰ Œ [2 0 1 2] . Ÿ • _

[12] h © ‰ W l l u] X] • } î ò ì ì ì o } P P v X • l î ì í í l í î l E ì ó r W W K r ^ ' r / ^ K r î ò ì ì ì r ^ µ Œ À Ç r W Œ • v š Ÿ } v í X %
[13] Z © ‰ W l l Á Á Á X ‰ o v š r š Æ Ÿ o • X } u l v š X ‰ (

dZ Z]v • ŒŸ. Ÿ}v v Œ]š Ÿ}v P v Ç ~ E •U µv Œ šZ ^š v
~^ •U]• Á}Œl]vP š}]vÀ •ŸP š šZ]u‰o u vš Ÿ}v }(/^Kîòìì v }šZ
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and remains at the preliminary stage. Some MNCs were invited to join the working team, such as GE and Siemens. About 50,000 companies now are under pilot practice of the national CSR standards.
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to continue to be advanced through a broader range of measures on issues, such as labor to energy
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1. History of the Development of MNCs' CSR in China

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1.1 Introducing CSR to China

During the late 1990s, due to protests around the world about sweatshops, some large MNCs started to apply social and environmental standards to their suppliers in China. The campaign for factory audits
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1.2 Leading CSR in China

From 2000 to 2006, CSR of MNCs developed rapidly. Through supply-chain management, especially the
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on labour issues to their Chinese suppliers. Moreover, MNCs began to share their CSR understanding
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µ•]v •• vŸŸ • Ç šZ ‰µ o] Á]šZ Œ •‰ š š} ^Z ‰ Œ(}Œu v U •
had not yet engaged CSR as a working concept.

1.3 Facing increasing pressure on CSR

Since 2006, CSR has been in a fast-growing stage in China. As public pressure has intensified, more
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companies released their CSR reports increased by 311% in 2008, reaching a total number of 1001 in
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‰š v X /v (šU]v îììòU šZŒ Z]v • }u •Ÿ vš Œ‰Œ]• •U Z
China Petrochemical Corporation, and National Grid, edged themselves into the world top 100 CSR Rankings list, issued by Fortune magazine[14]

Comparatively, the advantage for MNCs gradually faded away. Some leading brands, including KFC, Shell, Wal-Mart and Unilever, were blamed for applying lower standards to customer service in China.
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related to MNCs, suspicions and mistrust arose over their double standard in China and other countries with regard to all CSR issues.

2. Current State of MNCs' CSR

D}Œ Œ všoÇU •}u DE•Z À ‰] PŒ š Œ © vŸ}v š} vÀ]Œ}vu vš making improvements through their supply chains and improving CSR training; furthermore, some MNCs have established solid philanthropic programs involving environmental protection, community]u‰Œ}À u všU µ Ÿ}v vZ v u vš v PŒ] µošµŒ o À o}‰u všX

2.1 Environment, Health and Safety (EHS)

According to the Labour Law of the People's Republic of China, Environment, Health and Safety (EHS) Œ Æ‰ š š} š}‰ ‰Œ]}Œ]Ÿ • ({Œ }u‰ v] •X DE • Z À }všŒ] awareness about EHS and have helped to nurture more local CSR talent. Some even publish special EHS reports to disclose issues, such as employee exposure to poisonous materials, and the frequency of •]Pv]. vš]v] vš• }Œ u i}Œ] vš•X

> Case 1: GE and EHS Academy in China
>
> GE]• Á}Œl]vP š}P šZ Œ Á]šZ }šZ Œ }u‰ v] • šZ š]v oµ t orD ŒšU /vv}À ŸÀ Wo •Ÿ • š} •µ‰‰}Œš v Á ,^ uÇ]v Z]v [• 'µ vP }vP been developed in cooperation with the Institute for Sustainable Communities (ISC) and Lingnan }oo P }(•Z}vP•Z v hv]À Œ•]šÇX dZ ‰Œ}PŒ u Œ Á• }v šZ Æ‰ Œ from GE and other companies to provide high-quality training to new groups of Chinese EHS managers on a regular basis. This training is open not only to GE suppliers but also to more than 70 companies }v v}vr‰Œ}.š •]•X

2.2 Supply Chain Management

} }(}v µ š]• • š }(Œµo • }µšo]v]vP šZ Œ •‰}v•]]o]Ÿ • }( ] "commitments voluntarily made by companies, which put forth standards and principles for the conduct }(µ•]v •• ŸÀ]Ÿ •]v šZ (OECD, 2001).[15] The early 1990s witnessed a series of media Æ‰}• • }(•Á š•Z}‰ }v]Ÿ}v•]v šZ P Œu vš v ({}šÁ Œ]v µ•šŒ] P v š} }‰š } • }(}v µ š š} Œ ••µŒ •š l Z}o Œ• šZ š šZ]Œ • workers' rights.

In China, MNCs typically compel suppliers to adopt and implement the MNCs' codes of conduct and •}] o Œ •‰}v•]]o]šÇ •š v Œ • o]l ^ ôìììV }šZ ŒÁ]• U šZ Ç ‰Œ]À as suppliers. Current codes of conduct usually cover several social responsibility issues -- social security, worker treatment, labour rights and labour standards.

[15] OECD Survey 2001 op cit at 8.

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Avon	Debenhams	Levis Strauss	K©}rs Œ• v
And I	DKNY	Li & Fund	Redwing
Asda	Eckerd	Marks &Spencer	Reebok
Auchan	GAP	D © o	Roots
B&Q	GE	McDonald	Safeway
Body Shop	GH Warner	Monoprix	Sears
BT	Hasbro	Nike	Siplee
CDC	Hallmark	New Balance	Tomy
Carrefour	H & M	New Look	Toys “R” Us
µ© Œ ~ µ l	Iceland	NEXT	Tiger
Costco	K Swiss	Pentland	Timberland
C & A	K Mart	Polo	Target
Disney	<]vP.•Z Œ	Philips Van Heusen	Wal-Mart
Dayton	Kohl	Promodes	Woolworths

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Major social responsibility standards in China

SA8000

Based on internationally recognized human rights principles, SA8000 provides transparent,
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ICTI

ICTI, the International Council of Toys Industry, developed a single, efficient and coherent ethical standard, including the Code of Business Practices and an auditing protocol, to be adopted by factories. Upon successful completion of an ICTI certification audit, a factory is awarded an ICTI
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2.3 Conducting CSR Training

Most MNCs that understand the growing importance of CSR and Chinese expectations increasingly emphasize CSR training in China, which typically includes three major aspects:

- upgrading labour skills as a whole,
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- ‰Œ}À]]vP •‰]. ^Z]v(}Œu Ÿ}v v šŒ]v]vP š} u i}Œ •µ‰‰o] Œ

While the emphasis on skills development too narrowly defines CSR, it does demonstrate that CSR ‰Œ Ÿ]• PŒ}Á]vPU v • Œ •µošU DE •]v Z]v Œ]v Œ •]vPoC

Perhaps for efficiency, many manufacturing enterprises centralize their training sessions in the two u i}Œ u vµ(šµŒ]vP vš Œ•U z vPšÌ Z]À Œ oš Œ v W Œo Z }šZ Œ DE • Z À]u‰Œ}À +}Œš• š}]v Œ • ^Z Á Œ v •• v]o] subsidiaries.

2.4 Philanthropic Programs

Devotion to charity has proven to influence customers' purchasing behaviour. Based on a survey conducted in 2006 by AC Nielsen, more than 50% of customers would choose the services and products from enterprises that actively participate in charity.[16] Leading MNCs have noticed, and have been more actively participating in charity, with the most notable efforts directed to support community improvement, poverty alleviation, environmental protection, and education enhancement as well as Œ }À ŒÇ (Œ}u v šµŒ o o u]Ÿ •X

Despite substantial growth in GDP, many people in China still struggle with poverty, unhealthy vÀ]Œ}vu vš• v šZ o l }(µ Ÿ}v o }‰‰}ŒšµV]Ÿ •X dZ • Z oo v }v]Ÿ}v• }(o]((}Œ u vÇ Z]v • ‰ }‰o X

Certainly there is enough room and urgent need for more philanthropic CSR programs. Moreover, ‰}•]ŸÀ ‰Z]o všZŒ}‰]]v]Ÿ ŸÀ • Œv }u‰ v] • P}} Œ ‰µš Ÿ}v• Á well as the general public.

While government policies and practices must lead the effort to provide communities with good µ Ÿ}v v u‰o}Çu vš }‰‰}ŒšµV]Ÿ • v Z ošZÇ vÀ]Œ}vu všU Z]v • u Œl š Œ Œ •}v oÇ Æ‰ š š}]vÀ •š]v •}] o À o}‰u v More than simply the right thing to do, these initiatives nurture the healthy, prosperous, educated }uuµv]Ÿ • šZ š Œ šZ •š ‰o • š} } µ•]v •• }À Œ šZ o}vP š Œu

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Table 3: Cases of Philanthropic Programs

Area	Cases
Community Improvement	The residents in the Mt. Everest area suffer from inhospitable climate and geographic conditions. DuPont China provides them with a group of innovative energy-saving buildings,]u š]u‰Œ}À]vP šZ]Œ o]À]vP }v]Ÿ}v•U ÁZ] Z Z • ‰Œ}À v the welfare of local residents.
Poverty oo À] Ÿ}	Amway has been sponsoring the 'New Year Charity Concert' during the spring festival since 2004, aimed at raising funds for poor and handicapped children and other vulnerable groups. vÇ îìííU òð }v Œš• Z v Z o Á]šZ š}š o µ] v }(}µš more than 700 million RMB[17]
Environment W Œ}š Ÿ}	Wal-Mart launched a series of science popularization activities in 2010. All 175 stores in 90 cities across China participated, aiming at creating a better understanding of the impacts of global warming on people's daily lives among the communities, and promoting low-carbon lifestyles.
µ Ÿ}v Enhancement	/v :µv îìíìU D Œ • vÌ v Z]v z}µšZ À o}‰u vš &}µv Ÿ}v Z&µšµŒ ^š Œ &µv _ Á]šZ]v]Ÿ o (µv]vP }(ïì u]oo]}v ZD U (} µ Ÿ}v (}Œ •šµ vš•]v šZ ,}‰ ^ Z}}o •Ç•š u[18]
Post-Disaster Z }v•šŒµ Ÿ}v	d}]u‰Œ}À šZ vµšŒ]Ÿ}v v Z ošZ }v]Ÿ}v• }(Z]o Œ v]v šZ Á •š Œv Z]v L Œ D Ç îìì ôU šZ Z]v &}µv Ÿ}v (}Œ W}À Œš W Œ}PŒ uu v zµu ~ Z]v •]v]Ÿ š ^Kv zµ v š} •Z}Á Ç}µ Œ KFC, Pizza Hut Yum & ZJS and East Dawning restaurant across China, the "One Yuan" program collected 3.84 million RMB in 2008 and a total of 400 million RMB through the end of 2011. KÀ Œ íñUìì Z]o Œ v]v ^] Zµ v v }À Œ îîUîì Z]o Œ v]v zµv meals with milk and eggs, and kitchen equipment[19]

In summary, the development of CSR for MNCs in China has experienced its ups and downs. With µv vš Æ‰ Œ] v]v }v µ ŸvP ^Z]vš Œv Ÿ}v ooÇU DE • ‰Œ}À] ^Z]v šZ Z]v • µ•]v •• Á}Œo U ‰ ŒŸ µo ŒoÇ Œ o š š}]vš Œv šŒ v•‰o vŸvP v]u‰o u vŸvP šZ]Œ Po} o Æ‰ Œ] v š} Z]v U W}}Œ µv Œ•š v]vP }(o} o µošµŒ v Æ‰ š Ÿ}v• o š} © u‰ (Œrš}}r(Œ ‹µ vš u‰Z •]• }v ^Z • ‰µ o] Œ o Ÿ}v• š}}o }Œ š} u v]• ‰‰}]všu všX ^ Z}o Œ• ‰}]vš }µš šZ š šZ Œ Á Œ v} 8] š} šZ •š]v šZ . o U v }šZ Œ• ŒPµ šZ š o} o }u‰ v] •U šZ uµoŸv Ÿ}v o }v • š} š ‰Œ} ŸÀ oÇ]v ^Z ~t}Œo }v}uÇ Z •

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[19] Z©‰WIIÁÁÁíXšZuÌX }uIîìíîI}v Çµ v

1. Internal Challenges

1.1 Conflicts between the head office and local branches

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of understanding of local needs and the social context that the branches do. Therefore it is not rare that
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and wait for approval before proceeding.

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in Sichuan. It was not only because the amount of donation from those MNCs was relatively small
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tedious and slow, as the branch had to wait for the board's decision.[20]

1.2 Lack of CSR talent

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]u P }À Œ •µ •š v X •]oo s o vŸv}U (}Œu Œ ' v Œ o D v P Œ }(
for China commented at an interview with Harmony on Oct. 29, 2012, "It]8 µoš š} Œ Œµ]š v
talent as the candidates usually lack both knowledge and experience of CSR.

1.3 Lack of senior executive involvement in CSR

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regard the CSR department as unimportant beyond building and repairing the corporate image.

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1.4 Lack of employee engagement

This happens when employees are unaware of or are uncertain about the company's CSR initiatives, }Œ šZ Ç Z À v}š v]vÀ}oÀ]v šZ]•]}vru l]vP ‰Œ} •• v ‰Œ]}Œ]šÇ Ç}v ‰µ o] Œ o Ÿ}v• v u Œl ŸvPX

2. The challenges of Strategic CSR

Companies may encounter the following challenges when revitalizing their CSR programs:

2.1 Challenges in developing strategic CSR, rather than "precautionary" CSR

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"focus on legal and regulatory compliance, risk management and philanthropic activities, which are often precautionary measures to prevent misconduct rather than an attempt to increase corporate value" through strategic CSR (Nobuo, 2006). This is true for most MNCs in China. The challenge is how to identify local needs, align a company's long-term CSR initiatives with these needs and establish + ŸÀ v }vP}]vP }uuµv] Ÿ}v Á]šZ l Ç •š l Z}o Œ•X

2.2 Challenges in recognizing the need to "localize" CSR strategies

CSR strategies are essentially driven by stakeholder expectations (Commission, 2001). International v Z}u r }µvšŒÇ À}] • Œ]u‰}Œš všU µš o} o •š l Z}o Œ P Œ} for company responsibilities. Therefore strategic CSR requires cooperation with Chinese stakeholder P Œ}µ‰• v v µv Œ•š v]vP }(šZ]Œ }v Œv• v šZ µošµŒ o } }oo }Œ Ÿ}v uµ•š]v oµ]À]o •}] šÇ P Œ}µ‰• v o} o Œ •] vš•X

2.3 Challenges in finding local NGO partners

NGOs provide their business partners with skills and knowledge of local issues and contacts invaluable š} + ŸÀ ^Z ŸÀ]Ÿ •X dZ Ç o•} ‰Œ}À] À oµ o }vv Ÿ}v• š} o •}u Ÿu • (Z oo vP • .v]vP v }}‰ Œ ŸvP Á]šZ o} o E'K•]v Z below:

- dZ Œ Œ v}š v}µPZ Æ‰ Œ] v U ‰Œ}(••]}v o E'K• }‰ Œ ŸvP vÀ]Œ}vu vš o]••µ •U •‰] ooÇ }µš•] }(u i}Œ µŒ v o} Ÿ}v•
- Due to the early stage of development of Chinese civil society, local NGOs are weak in many aspects compared to their counterparts in developed countries. For example, some Z]v • E'K• Z À o]©o Æ‰ Œ] v Á]šZ ‰Œ}PŒ u À oµ Ÿ}v }Œ
- Z o ŸÀ oÇ (Á E'K• Œ šŒµoÇ]v ‰ v vš v Z À v ‰‰Œ}À accepted by the public.
- Many Chinese NGOs have a government background or belong to the government, which]•]+ Œ vš (Œ}u šZ}• }(À o}‰ }µvšŒ] •X dZ • E'K• Œ šÇ and not as accountable as grass roots NGOs.
- t]šZ •} u vÇ E'K•]v Z]v U]š v Z oo vP]vP š} š Œu]v šZ capacity of NGOs in China.

However, rather than avoiding NGOs, companies should assist them, as part of their support, to improve their organizational and project management skills and their professional capacity for dealing with social and environmental issues.

3. Challenges along the Supply Chain

3.1 Limited capacity of suppliers

small and medium enterprises (SMEs) in China as their suppliers, many do not provide adequate training or exercise due diligence in ensuring compliance with CSR programs. Consequently, suppliers may invalid results and embarrassing judgments.

3.2 Increasingly stringent environmental regulations along the supply chain

As the Chinese government's new laws aim to increase transparency, accountability and efforts to

3.3 Multiple suppliers within one CSR system

When suppliers are widespread, it is even more challenging to maintain effective social and environmental standards throughout the supply chain. International companies often have to deal with quite different suppliers at the same time. Suppliers, in turn, are affected by various territorial, administrative, industrial or even cultural influences, providing a tough challenge for CSR

4. Challenges from Growing Public Expectations

on these companies than on domestic ones. CSR issues related to MNCs are magnified by intense media coverage. Therefore there is real risk of lost reputations, disenchanted customers and decreased market share when companies fail to live up to their espoused values and ethical material that fell to the ground, and other poor practices in one of the McDonald's franchises in McDonald's corporate image, even though McDonald's China immediately apologized through its

}8] o u] Œ}ln co}Past, the public typically shows more tolerance towards local restaurants [21]
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It is also worthwhile to mention that as the Chinese business environment continues to mature so does civil society, including the rapidly emerging local NGOs. As a result, MNCs face more and more
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Exploiting low labour and environmental standards may bring short-term economic gains, but impose huge costs on society by harming public health, social justice and the environment. Companies responsible for these harmful practices are increasingly being exposed and very likely will lose public trust, goodwill and market share as a consequence.