

CSR in China: Are NGOs the Missing Link?

Corporate Social Responsibility (CSR) in China has, in the last few years, attracted much attention, and become the subject of numerous conferences and seminars. For all the attention and the talk, there is still confusion over what it means and how CSR principles can or should be implemented. Many people focus on philanthropy - no bad thing in and of itself, but CSR does not stop there. How has the environment for CSR developed in China over the last few years, and where might it be going?

What is CSR?

Fundamentally, CSR is about responsible products and processes – labour and environmental standards, safe products, stakeholder engagement and ethical marketing. In China the first three issues are particularly well recognised and there are strict laws in place, but the weak link is in the enforcement of those laws. Conventionally, CSR is regarded as being ‘beyond what is required by law’; in China it is often about ensuring compliance with the law. If companies in China view CSR in this way, then that is a good start! Even in the west, governments are becoming more involved in CSR, through endorsement of indexes and awards or through soft regulation (eg the revised Company Law in the UK requires economically significant companies to publish an Operating and Financial Review taking account of ‘soft issues’ and the ‘triple bottom line’).

Conventionally, CSR is something that is separate from profit. But now many companies see a clear business case for CSR and it is being integrated into their business strategy. It helps companies innovate; it helps them retain staff; and it helps them attract investment from ethical investment funds. For many Chinese suppliers to western customers the business case is stark. It is a question of whether or not they win the contract. There are case studies of Chinese suppliers that have also witnessed reduced accidents in the workplace, increased worker retention and have won more contracts from being the approved supplier of one multinational retailer. The China National Textile and Apparel Council has done some great work developing a labour standard for companies in its sector and reports several factories in East China experiencing 95% of its staff returning to work after Chinese New Year, compared with less than 70% in previous years. One factory had a return rate of over 100% – several of their employees had persuaded friends and family to come back with them. The HR manager had never experienced choice in hiring before! Countering these good case studies are numerous examples of where it is not happening, or even where suppliers are cheating the social auditors. This raises questions of who should pay – can western companies continue to squeeze their suppliers on price

whilst demanding that the supplier meets all its social obligations. The best examples are where the customer – or the trade association – works in partnership with the suppliers.

Traditional philanthropy in the west is evolving into community investment. No longer simply a case of handing over a large cheque to a worthy cause, companies (and NGOs or charities) are looking for long-term partnerships, employee involvement, and causes that are aligned with corporate strategies. Many multinational companies in China are taking this approach to community investment, but perhaps not so many Chinese companies yet. The State-owned Assets Supervision and Administration Commission (SASAC) has published CSR guidelines for SOEs. It encourages SOEs to ‘actively participate in social and community business (including donations and philanthropy), community construction and encourage employee volunteering.’ It also encourages them to ‘show concern and support for public welfare such as education, culture and health and to actively provide financial, material and personnel support and assistance in times of major natural disasters and emergencies.’ This has been amply demonstrated by the corporate (as well as individual) response to the Sichuan earthquake. There are questions over whether the infrastructure is in place for these SOEs to develop the kind of sustainable, long-term partnerships that is envisaged in community investment.

The final key component about CSR is accountability and reporting, and company policy towards bribery and corruption. In terms of reporting, China is making progress and we see increasing numbers of Chinese companies producing CSR reports (eg COSCO, China Mobile, Shanghai Pudong Development Bank). By the end of 2007, 64 enterprises had produced CSR or Sustainable Development Reports. SASAC guidelines require SOEs to establish a CSR reporting mechanism and those corporations with more developed CSR initiatives to publish a regular CSR or sustainability report. They even suggest that corporations should be voluntarily monitored by stakeholders and society. In the financial sector, the China Banking Regulatory Commission (CBRC) in Shanghai has issued guidelines to banks in Shanghai requiring them to produce an annual CSR report by the end of June each year, and to publish it on the internet. In May this year, the Shanghai Stock Exchange also published guidelines for listed companies to produce an annual environmental impact report. In relation to company policies towards bribery and corruption, however, there is perhaps some way yet to go. The ‘red envelope’ (红包) that sales teams give to potential customers; or that journalists expect in return for attending a press conference, still have widespread acceptance in China.

The China Story

What has given CSR its impetus, both in the west and now in China? Academics have identified market drivers, such as consumers, employees, investors, business customers and competitors. And there are social drivers, such as NGOs, media attention (for example negative attention on irresponsibility), social

expectations and government pressure. In China, the key drivers at present are government and business customers.

CSR only really came onto the radar in China in 2005, but it has undergone a period of rapid development since then. Before this time, it was viewed with a certain degree of suspicion by the government, who perhaps saw it as a new potential market barrier to Chinese products. Initially the key driver for CSR in China was pressure from western corporates on their supply chain, for example in the textiles sector. These western corporates themselves were facing pressure from NGOs and consumers. Product safety has been a headline issue – not just internationally (toys and toothpaste) but also domestically (baby milk) – that has affected the “Made in China” brand.

In the last few years CSR has been strongly promoted by the Chinese government. It is aligned with President Hu Jintao’s ‘harmonious society’ policy and this kind of political support has stimulated great progress. In 2005 the British Consulate sponsored a visionary programme to train academics at the national Party School in Shanghai (the China Executive Leadership Academy, Pudong or CELAP) in CSR. Since then, CSR has been integral to the training programmes for senior officials (from Director General up to provincial governor and minister level) and SOE directors from all over China. Last month (May 2008) Prof Jeremy Moon, Director of the International Centre for CSR at Nottingham University, delivered a lecture on CSR to 50 district mayors at CELAP and engaged in a lively debate with course participants.

Corporate activity in CSR was initially led by multinationals but increasingly large SOEs are becoming involved. State Grid has launched the first CSR implementation guide for Chinese enterprises. In 2006 the China CSR Alliance was established involving both domestic and foreign companies such as China Merchants Bank, Vanke Group, Nokia and Hewlett-Packard. Their first project was the ‘Six 100 Project’ funding 100 teachers for rural schools, 100 children in rural areas to visit Beijing, 100 new schools in remote rural areas etc. Their focus appears to be more on philanthropy than other aspects of CSR, but in some circumstances philanthropy can be of paramount importance, for example where there is a lack of effective government (as in the case in some regions of Africa) or the scale of need is greater than a government’s ability to meet it. A key question in China will be if and how philanthropy can develop into community investment and community empowerment.

The Role of Non-Government Organisations (NGOs)

In the west, NGOs have been a key driver of CSR – as critics of irresponsibility, as agenda setters and (a more recent trend) as partners with business. The situation for NGOs in China is an interesting one; a

relatively new concept, the NGO sector is in its infancy in China. A Chinese academic, Dr Liu Zhexin of CELAP, has suggested that civil society is not a traditional Chinese concept. The two characters that make up the Chinese word for 'nation' (国家) are 'guo' (国) representing the government and 'jia' (家) representing the family. These are the two most important influences for Chinese people, with nothing in between representing civil society. For the last 20 years, there have been a limited number of government affiliated bodies that fulfil part of the role of a traditional NGO – the so-called 'Government Organised Non-Government Organisations' (GONGOs). These include organisations such as the Women's Federation, All China Federation of Trade Unions, Shanghai Charity Foundation and the Disabled People's Federation. At present there is no legal framework for grassroots NGOs, so it is very difficult for them to register or become official. They have to affiliate with government organisations, such as local civil affairs bureaux or universities. It is hard for them to find sponsoring organisations – partly because of a concern that 'non-government' might in fact mean 'anti-government', and partly because of capacity within the government organisation. The government sponsor has no role in the running of the NGO – unless something goes wrong, in which case they have to take responsibility, which may account for their caution. Nonetheless, some enlightened local governments realise that NGOs can benefit society and are particularly keen to encourage those that engage with the community. Pudong New District, for example, offers financial subsidies for community service NGOs in favoured categories (eg helping the disabled).

The lack of a legal structure means that there are many – probably thousands – of community groups operating in a 'grey zone'. Only one foreign invested NGO (Roots and Shoots) has managed to register in China. All others are either operating as companies or registered offshore. A draft NGO law has been under discussion within China's legislative framework for several years but it has yet to be passed. Reasons for caution are likely to be linked to concern about lobbying activities (the 'anti-government' concern); and perhaps also capacity issues for managing the number of organisations that are likely to register when it is permitted. A Charity Law is expected to be agreed later this year, for implementation in 2009, covering rules on charity organisations, donations, trusts, volunteering and awards. It is not known whether this law will address the question of a legal framework for NGOs.

What this means in practice is that an unregistered organisation cannot legally fund-raise in China (particularly not from the general public), cannot have a bank account and cannot issue receipts. Some organisations manage to get round this, and sometimes the authorities turn a blind eye where they can see that the groups are meeting a real need. But it can be difficult and risky. There are several challenges for raising funds, particularly in western China where I have had personal involvement. If the funds have to be channelled through an individual's bank account, it is hard to meet the accountability requirements of corporate donors. It is difficult to issue official receipts. And with the trend for companies to focus on community investment and employee volunteering, many are looking for causes

closer to their home base, eg Shanghai, even though the need is greater and the money can go further in remote regions of west China.

A general softening of government attitudes towards NGOs earlier in the year became more hard-line after the demonstrations and riots in Tibet and the Tibetan Plateau. The aftermath of the Sichuan earthquake, however, has shown the positive role that grassroots community organisations can play. And it has galvanised individuals in a way never before seen in China. The challenge for the community organisations will be to sustain the effort in a meaningful and long-term way that continues to engage with those affected as they try to rebuild their lives. Without a legal structure that enables them to operate transparently, and to develop their capacity and skills, the current effort will be unsustainable.

In summary, CSR is growing in China because it fits with the 'harmonious society' model. Many multinationals (including Chinese multinationals) accept the case for CSR, though few have a coherent strategy for CSR locally and many reports focus on their philanthropic or community investment activities. Many corporates are looking to work with community organisations, but finding the right one is not easy. Many community organisations are desperate for financial support, and also capacity building, but are not able to grow until there is a legal framework for NGOs in place in China. The government role in CSR in China is crucial; but I believe that the NGO role – as partner, agenda setter and critic of irresponsible activity – is vital to the future development of CSR in China.

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