Assessing business and sustainability in China

Chinese corporations’ ESG requirements have undergone a sea change during the past 10 years. By ASIT K BISWAS and CECILIA TORTAJADA

Interests of Chinese companies in environmental, social and governance (ESG) issues are comparatively recent. Between 1991 and 2003, Chinese companies issued only 22 reports on corporate social responsibility (CSR). The situation changed dramatically when the concept of CSR was incorporated into China’s company laws in 2006. CSR considerations were further strengthened when the Shanghai and Shenzhen Stock Exchanges issued guidelines for disclosing CSR performance. The two stock exchanges targeted specific businesses.

Following these developments, many major Chinese companies started considering seriously their CSR issues. Large companies such as CNNC, Sinopec and State Grid started to publish their first CSR reports. Between 2006 and 2009, Chinese companies issued nearly 1,600 reports.

While this was a good beginning, only a limited number of companies issued such reports for two reasons. First, publication of such reports was not mandatory. Second, there were no penalties for not issuing these reports.

Accordingly, not surprisingly, there were wide variations in the quality of published CSR reports, as well as the frequencies of their publication. In addition, many of the companies that were targeted for publication of these reports by Shanghai and Shenzhen Stock Exchanges did not produce them. Equally, many companies which were not obliged to produce such reports did so voluntarily.

Domestic factors influencing CSR considerations

There were two factors, domestic and international, which influenced companies to prepare CSR reports.

A main domestic factor was President Xi Jinping’s increasing emphasis to build an ecological civilization with Chinese characteristics. First articulated in 2012, this concept received increasing emphasis in subsequent years. This meant that environmental growth rates were still an important national priority but this had to happen without unacceptable social and environmental consequences.

While this was unquestionably a positive development, many provincial governments still continued to prioritise gross domestic product (GDP) growth rates over ESG considerations in recent years. This provision with economic growth at any cost contributed to continued large investments in heavily polluting industries. Thus, for many provincial governments, genuine considerations of ESG requirements were an unnecessary and unwanted distraction which only contributed to lowering of their GDP growth rates. This meant that the central government’s increasing focus on ESG issues was incompatible with many provincial government’s philosophy of continuous and high economic growth at any cost.

A retrospective analysis indicates that these companies whose chief concern were members of the National People’s Congress or delegates to the Political Consultative Conference, and thus had strong political connections at the national level, generally produced reasonably good CSR reports rather promptly.

External pressures

Increasing requirements of China’s main trading partners on CSR issues also had a profound impact on businesses. For example, in 2003, the European Union adopted two legislative directives which had significant impact in Chinese corporation in terms of their CSR performances – especially if they had business dealings within EU. These two directives were on waste electronic and equipment equipment and reduction of hazardous substances (RoHS).

These directives mandated that any enterprise having commerce in, or export to, EU countries must meet these two regulatory requirements. They also required that supply chain activities in China must also comply with these two directives. The net result has been that Chinese suppliers are meeting the CSR requirements of EU, irrespective of whether they were used in EU or non-EU countries.

Another important factor is Xuan’s management of the Sichuan earthquake of 2008. In terms of CSR, this event is worth noting since major multinational companies such as Samsung and Apple contributed 60 million yuan ($11.7 million) and 50 million yuan respectively so that they could be perceived as good corporate citizens. This further cemented the general view that corporations have important roles to play in terms of philanthropy during major national disasters.

Emerging middle class

Another important factor that has further contributed to strengthening of CSR considerations of the Chinese corporations has been its rapidly growing middle class. They are better educated and more aware of global norms and global developments, compared to the earlier generations. They are demanding better quality of life, safer products, improved services, and a cleaner and healthier environment. The Chinese public has shown their intense displeasure and frustration with adulterated milk, baby food and medicine, as well as air, water and soil pollution. They are no longer willing to tolerate misconducts of companies that prioritise profits before people’s social and environmental welfare. They have become vociferous critics of such irresponsible companies in the social media. This has been an important factor in forcing companies to improve their CSR practices. It has been further enforced by recent efforts of the Chinese government to severely punish the errant companies through new laws which impose significantly higher fines, jailing of senior company officials and stricter enforcement.

China’s progress in CSR

China has been a relative newcomer in the area of CSR and ESR reporting compared to many Western countries. The general public is still not much concerned with CSR and ESR performances of corporations. This may be partly due to the fact that many companies still do not produce sustainability reports of reasonably quality.

This, however, is changing. One latest study indicates that between Jan 1 and Oct 31, 2018, companies released 1,676 CSR reports. This is a 6.5% cent increase over the corresponding period of 2017. While the number of reports has increased, regrettably the percentage of CSR reporting that could be considered “good or above” actually declined. There is not yet as much public interest in CSR reports as there was in 2016.

Another interesting fact is that such reports are mostly issued by listed companies that are state-owned or state-controlled. These companies often give priority to important national political issues such as poverty alleviation, poverty control and climate change. Many of the CSR activities are influenced by political priorities of national and provincial governments. For example, in 2014, the central government of the People’s Republic of China launched a project valued at billions of Yuan to improve the social welfare of children underprivileged due to the then government’s policies of one-child family planning.

It should be noted that the Chinese companies are not forced to follow political priorities – they do it voluntarily. However, it is also a fact that the government in recent years has encouraged companies to embed social and environmental values in corporate activities. This is because companies can promote and shape societal development through enlightened policies, stronger investments and regular dialogues with governments and the general public that would allow them to better understand and respond to the expectations and aspirations of both government and the public.

The CSR requirements of China’s corporations has already undergone a sea change during the past 10 years. This is almost as dramatic as its economic transformation over the past 35 years, and the changing skylines of its urban centres.

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