

This issue of CHANGING CHINA looks at the evolving issue of corporate responsibility and its implications for foreign multinationals operating in China

Corporate Responsibility for Multinationals in China

Changing Expectations

The global trend towards greater scrutiny of business is irreversible in this new era of transparency and accountability. And whilst China is no different, there are some unique considerations for multinational companies that are increasingly evaluated not only in terms of the role they play in economic development, but also in terms of their broader societal contributions.

Numerous editorials and other Chinese media commentary have referred to 2005 as 'the year of crises for foreign multinationals.' Growing expectations of broader contribution now go hand-in-hand with diminishing trust; companies that fail to grasp this concept and adapt accordingly have suffered. Others will inevitably follow. Conversely, companies that are taking the opportunity to contribute and differentiate in this fiercely competitive, complex and rapidly evolving market are reaping the benefits.

So whether from an idealistic or pragmatic standpoint — the issue of corporate responsibility has become an increasingly important factor to business success in China. Navigating these issues requires a sophisticated understanding of both the international and local context. Multinationals need to stay in touch with evolving societal and stakeholder expectations to ensure continued relevance. Those that 'get it' — usually the ones that see the China opportunity as ongoing and long term — are allocating significant resources and energy in developing a deeper understanding of the market's often opaque but always vital dynamics, and are building stronger relationships and alliances as a foundation for sustainable growth.

Whose Role is it Anyway?

When we consider the role that non-Chinese multinationals need to play in China's development, numerous questions need to be asked:

- How far should multinationals be responsible for addressing broader social, developmental and environmental concerns — with notions of the 'greater good' and the 'national interest'? Aren't business's fundamental responsibilities to produce products and services that satisfy various human needs and contribute to the economy? Isn't legal and regulatory compliance enough?
- Does China now need multinationals less or in different ways, and are there different standards for local and foreign companies? What's the advantage of demonstrating responsibility and how does this intersect with the expectations and demands of international stakeholders?
- What risks are there in falling short of these local and international expectations and, in fact, what are the benefits in exceeding them?



These questions are not new, nor are they limited to China. The broader issues have been at the core of discussions around Corporate Social Responsibility (CSR) and Sustainable Development for two decades — building on a debate that has been taking place throughout history about the role of business in society. However, there has been a marked upsurge in attention and focus on CSR and sustainability in China in the last 12 months from governments, NGOs, academics, business and the media that looks set to continue as part of a broader reevaluation of the role of multinationals in China's development.

The Intangible Contribution

In China notions of CSR vary according to particular stakeholders groups, just as they do elsewhere. However, irrespective of the theoretical debates about 'business and society', China continues to expect contributions from multinationals in return for the right to operate and profit from this market. Whatever your viewpoint, it needs to be remembered that, during a period of increasing ambivalence and even hostility towards multinationals, that they were only allowed or welcomed back into China as a means to accelerate China's development. As China develops and its needs change, the contributions expected and valued from multinationals have changed. In many ways the bar has been raised.

This takes us back to the question raised earlier about the risks of falling short of expectations and the benefits in exceeding them. Many multinationals have seen just how quickly goodwill can be spent even with years of massive and diverse contributions, and others have wondered if contributions have counted for anything at all when confronting a crisis.

Perhaps this is because much of CSR lies in the provision of intangibles — it is no longer good enough to point to just economic contributions, eg, the setting up of a factory which, while providing important employment, is also recognised to be providing revenue for the supplier. Increasingly CSR in China relies on intangibles in the form of knowledge sharing, education support, capacity raising, local industry enablement and partnerships.

It is on these areas that multinationals now need to focus while, of course, examining their tangible manifestations in terms of initiatives that impact the environment, labor, health, corporate governance, competitive practices, social investments and community involvement, strategic philanthropy and key stakeholder engagement.

Interestingly, in the past, CSR in China discussions have often begun with the role of foreign stakeholders in driving the CSR agenda. There are plenty of reasons for this — with the role of international NGOs and governments as watchdogs on multinationals here being prominent. However, this perhaps ignores the obvious fact that the key stakeholders for multinationals in China are Chinese, with the Government at various levels being prominent among them. And these stakeholders have been developing — or subject to — major changes in the way that China has viewed its development agenda.

Three Generations of an Evolving Chinese Development Agenda

China is a developing country replete with contradiction and complexity, a unique and fast evolving aggregate of cultures, demographics, markets and geographies. It's a huge cliché but still a truth to compare the sparkling post-modern office towers of Shanghai with time-worn rural villages in China's underdeveloped west, or rusty decline in the former industrial centers of the northeast. Hackneyed comparison maybe, but it points to the complex challenges facing China's leaders and people — with 700 million citizens still living the lives of peasant farmers, somewhat removed from an educated urban middle class. It also partly explains overarching themes and slogans for development that are often broad and all-encompassing. Looking back at the last quarter century since Deng Xiaoping first allowed multinationals back into China in a significant way; the themes, slogans and priorities that have received emphasis during this period reveal shifting expectations and needs relevant to the type of contributions expected of multinationals.

In fact, it's an excellent exercise to look at recent multinationals' experience based on the periods defined by the last three generations of Chinese leaders.



The Deng Period

- *Opening and Reform*
- *'No matter if the cat is black or white, as long as it catches mice'*
- *'Crossing the river by feeling the stones'*
- *The Four Modernizations*
- *Xiao Kang*

The Jiang Period

- *The Three Represents*
- *Informatization*
- *Develop the West*
- *WTO & Globalization*

The Hu Period

- *Harmonious Society*
- *From Made in China to Created in China*
- *Globalization of Chinese Companies*
- *Develop the North East*
- *People-Centric Government*

Generally speaking, companies that could and can point to a continuing role or relevance in achieving local goals during these periods earned trust, goodwill and reputation capital with Chinese stakeholders that supported sustainable business success. Those that were or are seen as hindering them, or containing China's development, have and will suffer the consequences.

By understanding the political, economic and social realities that these overarching themes and slogans address, it's possible for multinationals to identify what is expected of them in China, and the attendant opportunities and risks. So from the initial Opening and Reform and the Four Modernizations — where multinationals were a fundamental part of China's strategy to re-ignite development — to a period where the country has rising ambitions for itself and its own companies, it's seen that China is much less reliant on multinationals in many areas, and increasingly favors quality over quantity of investment.

Of course, this it not to suggest that multinationals should bend over backwards to satisfy local stakeholders, ignoring global and international stakeholders and expectations and straightforward business prerogatives. They do need to understand the context though to identify the optimum result acceptable to themselves and others, in support of sustainable business success.

International Scrutiny

As indicated earlier, the expectations and scrutiny of international stakeholders on issues such as labor rights, off-shoring, censorship, business ethics and the environment are still key to the type and form of CSR program approach a multinational may adopt in China. A fine balance needs to be achieved between providing the type of support that fits the political and social agenda in China and ensuring that this meets a multinational's global needs and the agenda of its politicians and other stakeholders at home.

So what should multinationals do in light of changing Chinese expectations and the growing importance of corporate responsibility issues in China?

It is crucial that multinationals set in place the right mechanisms and resources to build and maintain this awareness of changing expectations and that key executives are mandated to address these issues.

In China and, indeed, globally this includes:

- A senior executive team which possesses sufficient understanding of this context and dedicates a significant proportion of time to related issues
- A well-resourced and highly integrated public affairs function that draws upon relevant expertise (government relations, public relations, community relations, legal etc)
- A systematic issues tracking system and on-going stakeholder perceptual research
- Certainly, risk assessments and scenario planning
- Engagement with Chinese and international stakeholders to fully understand changing expectations
- And, of course, evaluation and development of partnerships

The outcome of these first steps will be the development of a well targeted and sustainable approach to CSR, and programs that brings tangible benefits to both parties. Of course, the type of program will vary hugely depending on the nature of the multinational. A fast moving consumer goods company is obviously a different proposition to a provider of aerospace technologies, an automaker from a bank, an apparel manufacturer from a chemical company. Each company has a particular relevance to China and a particular opportunity. However, with the right platform upon which to build, multinationals can look at themselves in light of changing expectations here and develop a concrete and — importantly — differentiated program approach which is relevant to China's development agenda and their own business needs.

Communication too, has a major role to play in the development and promotion of specific CSR programs. The communication function needs to act as a mediator between the company and stakeholders; not only as a mouthpiece in one-way communication but also as an earpiece, listening to and learning about stakeholder concerns, needs and shifting expectations.

Effective CSR in China begins with dialog and communication but, of course, at the end of the day the program needs to be real, tangible and adopted deep within the organization. In China, as elsewhere in the world, action speaks far louder than words.

About CHANGING CHINA

CHANGING CHINA is a periodic newsletter of Burson-Marsteller China. Our goal is to inform about emerging issues and the significance of China in today's world. If you are not receiving regular copies of this newsletter and would like to do so, please email Mary Devereux at mary_devereux@hk.bm.com.

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