

10 CSR Trends in China 2019

By ZHAO HANG

"We didn't see this coming". Bill & Melinda Gates's 2019 annual letter listed nine big surprises which include many social/environmental events from devastating natural disasters to sexist data. Although the nine surprises are not focused on China but most of them are worldwide issues and one in particular is about climate change: "By 2060, the number of buildings in the world is expected to double. That means the world will build an entire New York City every month for the next 40 years." This would definitely exacerbate climate change. Climate change was also on a center stage during this year's Davos. The 14th edition of the Global Risks Report examines the evolving macro-level risk landscape and highlights major threats that may disrupt the world in 2019 and over the next decade. The report declared that humanity was 'sleepwalking its way to catastrophe' as extreme weather, failure to act on climate change, and natural disasters topped the list. The report also painted a worrying picture of the deep interconnections between these environmental risks and the level of human health, economic growth, and security.

It seems that 2019 is off to a rocky start. During the China annual Central Economic Work Conference in January, President Xi Jinping said: "The world is facing unprecedented changes in a century, bringing both challenges and opportunities". Companies in China whether SOEs, MNCs or private companies will be having the same challenges. It is often the case that when facing a tough business outlook, companies are less likely to make efforts in CSR. However, it is also essential not to ignore some of the important CSR issues associated with business.

Every year SynTao (a Beijing based CSR consultancy) will make a forecast on CSR Trends and it is to help companies to look at their CSR related issues with more of an understanding of what's going on and to plan their strategies ahead. The following information is based on SynTao Consulting's Top 10 CSR Trends.

Trend 1: Comprehensive CSR Countermeasures in the Era of Global Conflicts

Global economic progress is facing uncertainty caused by trade

protectionism and political upheaval. When business environment becomes volatile it is more important to look at your CSR issues with caution:

- Strengthen Compliance Management. Identify and evaluate ESG risks, deliver training to enhance employees' awareness and capacity on compliance and risks management, Emphasize internal compliance culture and management.
- Benchmark with SDGs. Expand and upgrade traditional business philosophy - Translate SDGs into corporate goals and actions - Apply SDGs framework for information disclosure
- Focus on Community Development & Gain Social Licenses to Operate. Integrate community development into corporate decision-making and management process - Partner with local associations, media, NGOs, etc. for community development - Community volunteer activities

Trend 2: Chinese Oversea Investment Synergizes with Chinese Development Aid

While China is pouring investment into Belt & Road countries, foreign aid has not been neglected. In 2018, the China International Development Corporation Agency (CIDCA) was set up to oversee strategic guidelines and policies on foreign aid. This would put more weight on Chinese companies' overseas CSR efforts. When Chinese companies invest abroad, they need to have a mutually beneficial 'win-win' concept. It is also seen that industry associations, business associations and industrial parks will continue to act as bridges to new opportunities, build communication and training platforms. Local community engagement has become more important and prominent for Chinese companies going abroad.

Trend 3: Efficient CSR Strategy under Economic Pressure

According to Reuters, China's economic growth is expected to slow down to 6.3% in 2019, which will be the weakest in 29 years. This calls for a more focused and efficient CSR approach. We have already seen news on companies laying off employees such as Foxconn. Labor intensive companies need to look at labor rights issues carefully:

- Reprioritizing stakeholders and key CSR issues.
- Design CSR programs to fit with business strength. This is the core of strategic CSR which ties with your core business value.
- Use CSR programs to create shared values. This requires cooperation with business units or other functions.

Trend 4: In-depth Poverty Alleviation with Corporate Strength

Needless to say, China's success on poverty reduction has not gone unnoticed. According to world bank, in total, more than 700 million Chinese people have been lifted out of poverty since 1978. Many companies in China, SOEs in particular, would have included poverty reduction as their main CSR efforts since 2015. In 2017, a total of 854 listed companies in the Shanghai and Shenzhen stock exchanges disclosed poverty alleviation information & carried out more than 4,300 industrial poverty alleviation projects with an investment of RMB 20.8 billion.

Trend 5: Strict Pollution Control with Considerate Approaches

Chinese government initiated a national wide inspection on Air, Water and Soil pollution and the inspection will be toughened in the future. Businesses will be facing huge pressure to meet environmental compliances as the war on pollution continues:

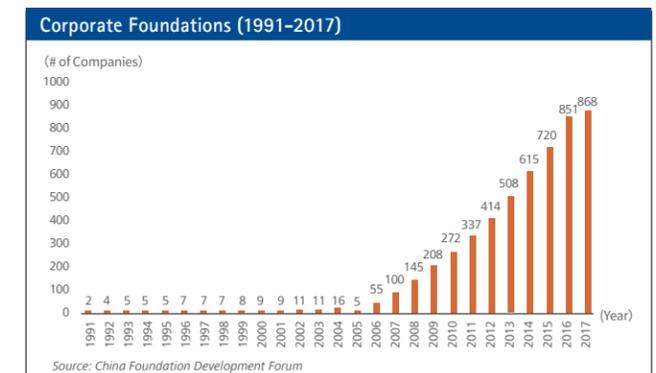
- Companies under ongoing pressure by Air, Water and Soil Pollution Inspection from Government and NGOs
- Coordination of Environmental Protection and Economic Development
- Green Supply Chain Management throughout whole life cycle

Trend 6: ESG Reporting Guide for A Share Listed Companies

China Securities Regulatory Commission (CSRC) proposed "to establish an ESG reporting system for listed companies". The Shanghai Stock Exchange (SSE) has added eight industry information disclosure guidelines, making a total of 28 industry reporting guidelines. SSE also developed five principles for sustainable stock exchanges initiative. This trend will lead to Quantitative CSR Management.

Trend 7: Corporate Foundations Becoming New Force of Philanthropy

In recent years, more and more companies have registered charitable foundations. Although registration thresholds may increase in the future, the increasing trend remains unchanged. We have seen two main reasons for setting up corporate foundations. One is for corporate branding and showing long lasting commitment to the society. Second reason is aiming to achieve a more professional and better outcome.



Trend 8: Double-edged Sword of Internet: Innovation vs. Accountability

AI, VR, 5G, blockchain are not only the buzz word in the world of business, these new technologies have also been used to create innovative philanthropic models by internet companies such as China's big data giants Baidu, Alibaba and Tencent. Ant Financial announced their Environmental "Ant Forest" in 2016 and soon became very popular, according to data from Ant Financial "Until May 2017, there was about two hundred million users in Ant Forest, equivalent to 3% of the world's population. Until August 2017, 1.22 million tons carbon emissions have been reduced totally and 10.25 million entity trees have been planted. While companies are continuing to embrace new technology to create innovative programs they should also be aware of the needs for internet governance & accountability is also rising.

Trend 9: Increasing Trends for Sustainable Lifestyle

We can all agree that consumers have power to influence business, however, to what extent can consumer influence sustainable consumption? 2018 Yili China Sustainable Consumption Report reveals that over 90% of consumers are aware of sustainable consumption and are forming the habits in areas of environmentally-friendly clothing, energy-saving and water-saving appliances, using public transportation, and rejection of disposable tableware. Consumer's awareness in sustainable lifestyle is increasing and in first tier cities like Beijing and Shanghai government is pushing for waste sorting and recycling. Green consumption has become a new lifestyle in big cities.

Trend 10: ESG Fund Products Attracting More Investors

It is clear that with continued crackdown on pollution and SOEs reform, the Environmental, Social and Governance (ESG) factors will play a more important role for investing in China, the Chinese government, financial institutes and publics have been supporting this by introducing financial policies and encouraging product innovation. There are more and more ESG fund products on the market now and even some products for individual investors. According to Mr. Ma Jun, Chairman of Green Finance Committee of China Society for Finance and Banking, China has become a global leader in Green Finance. With more ESG Fund products emerging on the market this would also motivate companies to be more transparent in the area of CSR.

2019 is a key year for China to achieve its goal of building a moderately prosperous society in all respects by 2020. From the CSR trends you can see how private sectors will be influenced during this process.

Zhao Hang is an independent CSR consultant specializing in CSR strategy planning with a systematic approach; designing CSR program with Design Thinking and stakeholder communication. More than 15 years of management experience in CSR and HR with MNCs in Beijing and UK.