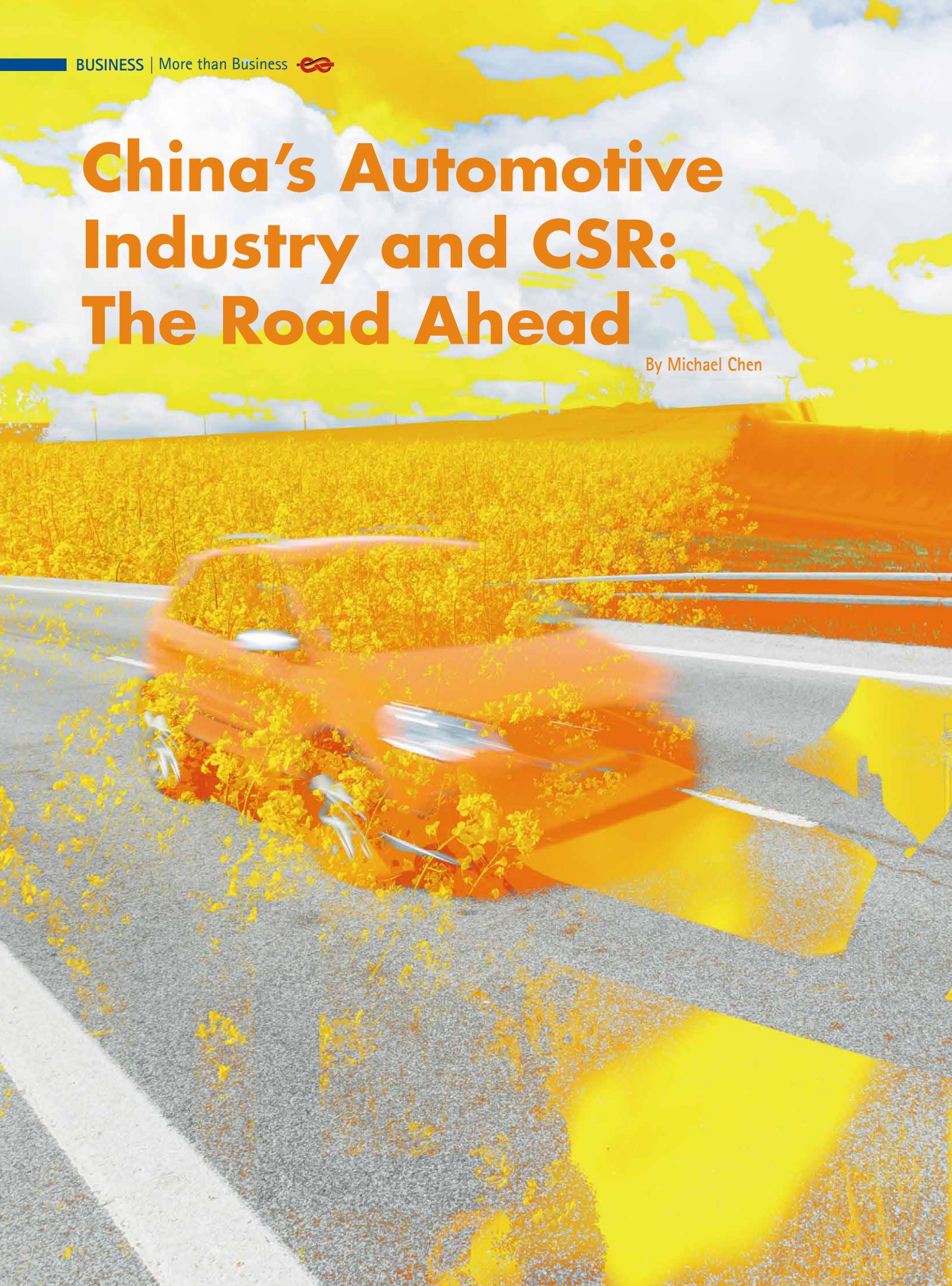


# China's Automotive Industry and CSR: The Road Ahead

By Michael Chen



Corporate Social Responsibility (CSR) is a concept used to describe the relationship between corporate growth and social development. Enterprises are responsible for – and obliged to – promote social welfare in the pursuit of maximum economic benefits, including their responsibilities to employees, customers, partners, shareholders, governments, communities, and the environment. A growing number of Chinese enterprises have already incorporated CSR into their development strategies and corporate governance.

In recent years, driven by factors such as regulation and the capital market, businesses have begun to draw up and issue CSR reports. Some stock exchanges have also increased mandatory environmental, social and governance (ESG) disclosure requirements for listed companies. ESG performance, as an important indicator of the performance of listed companies in fulfilling CSR and sustainable development goals, is increasingly being integrated into listed company research and decision frameworks by investors and asset managers.

The automotive sector is characterized by numerous production processes and a complex, diverse supply chain system. OEMs are at the core of the industry chain across production and demand, so bear more complex and arduous CSR. In addition to these sector characteristics, industrial policy is now promoting the evolution of the auto industry in a strategic direction focused on improving quality, valuing technology, and stimulating innovation. All these factors will propel automotive enterprises to make positive adjustments in fulfilling CSR or ESG requirements, and the COVID-19 outbreak will accelerate this transformation.

### **Automotive Businesses CSR Evolve Due to COVID-19**

During the pandemic, automotive companies and many other businesses have made substantial donations to relief efforts. According to incomplete statistics, from 23 January 2020, more than 120 OEMs, parts suppliers, dealers, charging enterprises, logistics companies, and mobility companies in the auto industry contributed a combined RMB1.2 billion to fight the pandemic in less than two weeks. Automotive businesses have taken CSR actions in addition to donations during the outbreak:

**Shifting from "capital contribution" to "technology output" and "capability output."** During the outbreak, China has faced a shortage of medical supplies, and production capacity has been restricted. Many passenger vehicle enterprises quickly organized personnel, and purchased raw materials and production equipment, to produce masks and other emergency supplies through self-built production lines or outsourcing, delivering these to areas hit by the pandemic. OEMs quickly and rapidly transferred a series of production materials to produce medical supplies – showing the comprehensive advantages of automotive enterprises in raw material procurement, storage and transportation, workshop management (masks need to be produced in dustless workshops), automated production, quality control, and several other respects.

**Ensuring efficient resource scheduling and integration.** As the outbreak expanded, businesses were called on to solve problems that arose. Automotive companies gave full play to their internal and cross-industrial strengths, cooperating with professional organizations and institutions on joint innovations through the reasonable division of work. For example, one major Chinese automaker worked with scientific research institutions and air filter enterprises to develop an intelligent air purification system to

prevent bacteria and viruses from entering vehicles, rapidly achieving mass production. In addition, many global automotive enterprises used their networks to purchase medical supplies needed urgently to combat the outbreak. Automotive businesses' huge channel advantages meant they could solve the problem of frontline supply shortages.

**Safeguarding the interests of stakeholders during a unique period.** During the height of the outbreak, automotive enterprises made use of automation, big data, cloud computing, shared service centers and other technological means to ensure their employees could work remotely, guaranteeing their safety while providing essential services for customers. At the same time, automotive companies paid more attention to the health of employees across the value chain, proposing measures to relieve cash flow pressure on downstream enterprises, including by extending interest-free periods and removing quarterly assessment targets.

### **COVID-19 Prompts OEMs to Change Their CSR Thinking**

During the pandemic, as traditional relief channels like donations proved less efficient in delivery and could not accurately meet demand, automotive businesses took the initiative to adjust and rethink their positioning and capability advantages.

We believe COVID-19 will accelerate the transformation of automotive company CSR strategies and practices to "Phase 2.0." In this phase, the fulfillment of CSR will become a way for enterprises to contribute to society, laying the foundations for sustainable brand development and repaying society as effective organizers of social resources. The pandemic will prompt enterprises to emerge from their original strategic frameworks and innovate approaches to fulfilling CSR:

**As social governance decentralizes, enterprises emerge as efficient organizers of social resources.** In the face of a public health emergency, enterprises have exerted their intrinsic advantages in organizing, scheduling, and coordinating resources to provide higher social utility in combating the outbreak. For example, some OEMs transformed lines to produce masks or provided vehicles to transport medical care personnel, showing their strong supply chains and production recovery capabilities.

**Enterprises in the same industry chain share weal and woe.** Many parts enterprises and 4S stores have not been able to continue normal operations due to the pandemic, and working with upstream and downstream stakeholders has highlighted OEMs' operating advantages. OEMs took the initiative to check how upstream suppliers were affected, and helped them resume work to reduce performance difficulties. They also reduced pressure on downstream dealers by adjusting assessment targets, granting subsidies, interest payment discounts, and reductions. During a time of crisis, Automotive businesses fulfilled their CSR to enterprises in the same industry chain.

The wide spread of COVID-19 deepened concerns among vehicle owners about in-vehicle air quality, and stimulated new demand for healthy, intelligent in-vehicle environments. Automotive companies will be prompted by the pandemic to emphasize safety and health in future product development, including by launching in-vehicle air purification and sterilization functions, using interior materials with stronger antibacterial capability, and installing sensors that

can monitor body temperature and other physical signs of occupants in real time. Such health-related sub-functions are expected to stimulate new demand and become a point of growth for automotive businesses post-pandemic.

**Awareness of automotive brands has surged.** Domestic-funded automotive companies have seen a surge in brand awareness due to the outbreak. One domestic-funded automotive enterprise with outstanding performance during this period experienced two significant improvements in the Baidu Index of search queries in February, surpassing some foreign-funded brands. It used its supply chain advantages to produce masks and won high praise from across society. However, most foreign-funded automotive enterprises were unable to take such quick, practical actions due to a lack of decision-making rights and other factors. In CSR Phase 2.0, domestic-funded automotive enterprises need to consolidate this brand awareness, while foreign-funded enterprises need to optimize their domestic influence through more local CSR and brand activities.

### **Automotive Companies Will Make Substantial Adjustments to CSR Strategies**

Following COVID-19, auto businesses will be left with little choice but to restructure existing CSR programs.

**First of all, companies will carry out CSR planning based on corporate strategies.** Businesses often consider CSR as a "cost item" or a "forced action" to cope with public opinion and government relations. Moreover, CSR budget, strategy and execution planning is conducted by their marketing or brand departments, yet implementation is often entrusted to public relations companies.

In CSR Phase 2.0, automotive companies will adjust their CSR activities to align these with their corporate values and strategic objectives, by:

- Developing top-level CSR strategy and design based on long-term, sustainable development goals.
- Integrating CSR into raw material procurement, production and manufacturing, logistics and transportation, assembly, marketing and other operations.
- Sharing global supply chain issues with supply chain enterprises and proposing countermeasures against potential CSR risks.
- Establishing CSR activity performance systems and measurement standards, and evaluating and quantifying CSR's economic and social value.
- Incorporating CSR into organizational culture and business conduct.

**Businesses should consider social issues closely related to their main business and with strong appeal to stakeholders.** Automotive businesses in China have mainly focused their CSR efforts on two categories: First, charitable activities in the course of business, such as disaster relief donations, funding for disadvantaged schools, and projects for left-behind children, without pursuing direct or indirect economic returns. Second, taking responsibility for sustainable production and operations, as well as environmental protection, by lowering energy consumption and emissions levels, reducing their impact on and protecting the environment, recycling resources, and using clean energy.

Automotive companies can formulate CSR strategies and select CSR

projects based on the following principles:

- Extending and expanding core business based on strategic needs;
- Screening for social issues of common concern among stakeholders;
- Prioritizing issues from multiple perspectives such as the impact of stakeholders on current business operations as well as the urgency and universality of demands, maintaining the interests of stakeholders while fulfilling CSR obligations.

The pandemic also raises a new consideration in CSR project selection: Businesses need to incorporate contingency plans and risk resistance measures for public safety incidents (including natural disasters, infectious diseases and accidents) into the scope of CSR, thereby guaranteeing the sustainability of their business plans.

**Companies should expand their influence and build ecosystem partnerships around CSR.** CSR should make use of platform effects to mobilize resources from customers, suppliers, communities and other areas, use the strengths of various stakeholders, and solve problems in an integrated, innovative way. A domestic-funded automotive enterprise was able to rapidly supply self-produced masks to the frontlines largely because it gave full play to the advantages of its suppliers. With active and close cooperation between multiple parties, it took less than a week to launch mask production lines. Such a collaboration enhanced its reputation and created social value for parts factories and the OEM itself.

**Companies will further integrate CSR into sustainable development strategies.** Sustainable management planning allows enterprises to evaluate their long-term development strategies. Amid a global trend toward fulfilling CSR, OEMs must also formulate localized, sustainable development strategies for the Chinese market. For example, to address global warming and demand for new energy vehicles and mobile car-hailing, automotive companies need to consider how to integrate environmental and urban sustainability, reposition dealers and other external partners, create new value for users, and provide new thinking for employees as internal partners. This will enable them to formulate sustainable development strategies and reflect their concerns.

**Finally, businesses should pay attention to CSR disclosures.** Automotive businesses can prepare CSR reports according to the Global Reporting Initiative (GRI) sustainability standards, CASS-CSR, or other guidelines. The issuance of CSR reports not only shows society a company's practices and achievements in CSR, but also enhances transparency to ease stakeholder concerns and win trust, promotes corporate values, establishes a responsible brand image, and improves corporate reputation.

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