Emerging Best Practices of Chinese Globalizers
The Corporate Global Citizenship Challenge

In collaboration with The Boston Consulting Group
The 42nd Annual Meeting of the World Economic Forum was held under the theme The Great Transformation: Shaping New Models in January 2012. Leaders from business, government, international organizations and non-governmental organizations (NGOs) expressed their aspirations and exchanged innovative ideas on how we can create new global models needed for the inevitable transformation upon us. Given that China has been going through major changes in the past three decades, this journey is one that is already rather familiar. In every corner of this vast nation, transformations have time and again improved people’s lives, from remote rural regions to modern urban cities, from traditional media to social networks, from private companies to state-owned enterprises.

China’s impact on the world economy is increasing constantly, through a greater global presence of Chinese companies in international markets. At the domestic level, the concept of corporate responsibility is often well understood. However, at the global level, the notion of corporate global citizenship has yet to become a part of mainstream corporate thinking. Nevertheless, we found solid evidence of progress and emerging best practices on corporate global citizenship among some Chinese Globalizers. The extensive research outlined in this report highlights best practices that not only span geographies – across the continents of Asia, Africa, Europe and Latin America – but also encompass a range of fields such as supply chain management, green technology, community engagement and peer cooperation. This is a positive and encouraging discovery. To our knowledge, this is the first such comprehensive analysis of China’s Globalizers undertaken to date.

The process of internationalization is a challenging journey for Chinese companies, or any company for that matter. To bridge cultural and societal differences requires concerted effort. As such, we hope that this report will help companies on this journey first and foremost by exposing Chinese chief executive officers (CEOs) and government officials to the concept of corporate citizenship concept.

Second, we aspire to help cultivate this concept within the culture and mindset of businesses so that it becomes embedded into business strategies. Third, we hope to encourage broader disclosure and reporting practices and greater transparency, so that companies share information not only with the domestic audience but also the global community. Last, this report aims to spur further learning and experience sharing with the goal of making the best practices of some companies today the standard practice of many Chinese corporations in the near future, thus developing more global leaders, in the interests of improving the state of the world.

Becoming a corporate global citizen strengthens and supports the core business of a company. As this report shows, it is indeed possible to grow while at the same time being responsible to multiple stakeholders across the globe. The transformation into a corporate global citizen is a continuous process rather than an ultimate goal. Likewise, this report marks the beginning, rather than the end of this path. Clearly, like in any part of the world, performance can be inconsistent, even in the best organizations. Rather than focusing on shortcomings and unsatisfactory actions, we choose to concentrate on the emerging best practices with the aim of promoting them to common practices which can be widely adopted and applied by the majority of Chinese Globalizers, if not all. Nevertheless, we do recognize the obstacles and challenges and have identified in this report several opportunities for further development.

In this regard, we look forward to working with a greater number of companies in the future by providing a necessary platform and additional support to enhance their learning and spur the exchange of experience to facilitate their progression towards Corporate Global Citizenship.

Last but not least, we would like to thank the project advisory team for their tremendous insights and global perspective, the project core team for their tireless work and the more than 100 executives, government officials and experts for their contributions to this report.
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The Corporate Global Citizenship Challenge

Executive Summary

The past decade has seen an increasing focus on corporate citizenship among corporations. As the business world becomes more connected – within both the private and public sectors – there is a growing sense that no company can operate in a vacuum, and no company can limit its interests to growth and profits at the expense of all other considerations. In this context, many companies have taken a more enlightened view of their role in the global economy, seeking to minimize the negative impact of their operations or even to improve conditions for various stakeholders, including customers, shareholders, suppliers, employees and citizens in the communities where the companies operate. These efforts fall into a continuum of activities that comprises the full span of corporate behaviour (exhibit 1).

Exhibit 1 – Corporate Global Citizenship Framework

At a basic level, some activities are fundamental to a company’s existence. A company must make a profit, and the side-effects of profitable operations, such as job creation, contribution to GDP and the taxes paid by a company, make up its baseline economic contributions. These are a form of citizenship, but only at the most basic level. The next step in the evolution is corporate governance: a minimal requirement calling for companies to obey the laws of the regions in which they operate.

Beyond mere profitability and compliance with laws and regulations, however, companies recognize a greater ability to contribute to society, which represents the next step of their corporate citizenship development. Many young companies exercise this ability in an elementary way: through philanthropy. Yet while donations of money or other resources are commendable, they represent an early stage of corporate citizenship. Social responsibility initiatives are more progressive when companies engage with their various stakeholders to improve environmental conditions or other social concerns. Again, these ventures deserve praise, but many companies consider them as a mere cost of doing business, which brings a sense of obligation and compromise.

Social entrepreneurship is a more enlightened and effective approach. Companies undertake these ventures not only to benefit others but also to generate new business opportunities. Companies that succeed at this level can share their practices with the broader public, resulting in greater gains and a development of a culture of social entrepreneurship on a world scale. This is the ultimate form of corporate global citizenship.

In the more than 10 years since China entered the World Trade Organization (WTO), many Chinese companies have expanded into international markets and assumed greater prominence on the global stage. These companies have also taken steps towards corporate citizenship. Such progress has stemmed from a greater awareness of the benefits of corporate citizenship, but is also due to external pressure from a range of stakeholders – foreign partners, governments, the public, nongovernmental organizations (NGOs), the media and investors. As a result, Chinese companies have made significant progress both domestically and globally.

To capture the trends of progress and increase the pace of corporate global citizenship development, the World Economic Forum and The Boston Consulting Group analysed the citizenship practices of nearly 100 of China’s largest international companies. Through this process, we identified several emerging best practices balanced across industries, regions and citizenship categories.
Also identified were three major challenges that have prevented a more extensive adoption of these practices. First, some Chinese companies lack a broad and thorough understanding of the concept of corporate citizenship. The most successful and sustainable citizenship practices are not – and should not be – purely altruistic, which implies a zero-sum trade-off in which communities benefit at the expense of shareholders. Instead, corporate citizenship initiatives should benefit both society and the company at the same time. In fact, the best corporate citizenship efforts find the intersection between a company’s strengths and specific social problems. This alignment helps drive innovative solutions to social and environmental problems and unlocks potential new business opportunities.

The second major challenge is a reluctance to communicate, such as disclosing balanced citizenship information to the general public, discussing a company’s plan and thoughts with external stakeholders and trusting local partners. However, this communication should not be a secondary and subordinate step to international citizenship practices. A more open discussion and broader partnership would help companies to build up critical relationships and develop their strategies in a coherent way, resulting in better outcomes for companies and communities.

The third challenge is a less favourable environment for innovation among Chinese companies. In the 30 years since opening and economic reform, many Chinese companies have followed the well-established practices of western companies, with the strong belief that given sufficient time and experience, they could become as successful as their foreign role models by copying what they did. However, this is not a formula for excellence – in corporate citizenship or any other aspect of business. To become true corporate global citizens, Chinese companies must develop an understanding of how to learn. It is not enough to copy. Instead, it is necessary to provide a flexible environment to create innovative solutions by incorporating the lessons and experiences of others while at the same time aligning the interests of many stakeholders.

If Chinese Globalizers are to become corporate global citizens, they must address all three challenges by building:

1. A culture of corporate citizenship
2. A culture of information sharing and open discussion
3. A culture of innovation

Success in these areas will bring a range of benefits to Chinese Globalizers, such as better engagement with global communities and improved overseas investments and business operations. They can also take the principles learned in foreign markets and apply them at home, to improve corporate citizenship efforts and enhance business performance in China. For the Chinese government, progress on the path towards corporate global citizenship will help fulfill the Chinese government’s “Going Out” strategy, along with “Quality Growth and Harmonious Society,” the key theme of the government’s 12th Five Year Plan. Finally, at a global level, sharing best practices and lessons learned regarding citizenship on an international platform will help more companies to become corporate global citizens, scaling up such efforts and putting the ultimate goal of sustainable development within reach.
Part I The Economic Contribution of Chinese Globalizers and Early Challenges

Since China joined the WTO, many Chinese companies have substantially developed their export-import trading volumes and increasingly established international operations in markets around the world. As part of this evolution, China has become a major outbound investor. It ranked fifth in the world in foreign direct investment (FDI) in 2010, with outbound FDI approaching US$ 70 billion, with a five-year compound annual growth rate (CAGR) of 34% between 2006 and 2010 (exhibit 2).

Exhibit 2 – Outward Foreign Direct Investment from Major Economies, 2010 (US$ Billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Outward FDI (US$ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>329</td>
</tr>
<tr>
<td>Germany</td>
<td>105</td>
</tr>
<tr>
<td>France</td>
<td>84</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>78</td>
</tr>
<tr>
<td>China</td>
<td>69</td>
</tr>
<tr>
<td>Japan</td>
<td>56</td>
</tr>
<tr>
<td>Russia</td>
<td>52</td>
</tr>
<tr>
<td>India</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: 2010 Statistical bulletin of China’s outward foreign direct investment

Statistically, FDI by Chinese companies has been concentrated in several industries such as mining, finance, and leasing and business service, among others (exhibit 3), primarily in several regions in the developing world (exhibit 4). However, Chinese companies have also shown significant growth in the developed markets during recent years.

Exhibit 3 – China’s Outward FDI Breakdown by Industry, 2006-2010 (US$ Billion)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>21</td>
<td>27</td>
<td>56</td>
<td>57</td>
<td>69</td>
</tr>
<tr>
<td>Leasing &amp; business service</td>
<td>21%</td>
<td>10%</td>
<td>25%</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>Mining</td>
<td>40%</td>
<td>6%</td>
<td>10%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Finance</td>
<td>17%</td>
<td>1%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Wholesale and retailing</td>
<td>4%</td>
<td>3%</td>
<td>12%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Transport, warehousing &amp; postal service</td>
<td>15%</td>
<td>6%</td>
<td>11%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Others²</td>
<td>8%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>57</td>
<td>56</td>
<td>36%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Statistical bulletin of China’s outward foreign direct investment (2006-2010), BCG analysis

1. Leasing & business service mainly includes investment holding
2. Others include agriculture, forestry, husbandry and fishery, power and other utilities, construction, IT, residential & catering trade, real estate, science research, service & geo-survey, education, public health & social welfare, cultural, sports & entertainment, and public management & social organization
Exhibit 4 – China’s Outward FDI Breakdown by Region, 2006-2010 (US$ Billion)

1. Hong Kong and Macao account for 86% and 0.2% of China’s outward FDI in Asia in 2010 respectively
2. British Virgin Islands and Cayman Islands account for 58% and 33% of China’s outward FDI in Latin America in 2010, respectively
3. Investment number adjusted due to discrepancy between total amount and regional sum-up

Source: Statistical bulletin of China’s outward foreign direct investment (2006-2010), BCG analysis

At a fundamental level, the expansion of Chinese companies has led to significant economic contributions in the foreign markets in which they operate, in the form of job creation and contributions to GDP and local taxes. For example, in 2010, Chinese companies employed nearly 1 million people in overseas markets, of which 71% were local residents (exhibit 5).

Exhibit 5 – China’s Overseas Employment, 2006-2010

1. Bank of China
2. China Railway Construction Corporation

Source: Statistical bulletin of China’s outward foreign direct investment (2006-2010), company corporate global citizenship-related reports, literature search
Companies in mining, construction and transport industries are the major focus of such efforts. The China Railway Construction Corporation hired 26,000 local employees in 2010 in the foreign markets where it operates and Sinopec hired 14,000. For other Chinese companies, these ventures involve the retention of local employees after their companies are bought out by Chinese players. Weichai Power expanded its local workforce from 100 to more than 300 after acquiring a manufacturing plant in France in 2009.

This has been reflected in the corporate citizenship reports published by these companies. More than 80% have activities in place to develop employment opportunities in their overseas markets. Around half make specific efforts to hire local employees for their international operations. For example, ZTE partnered with local institutes in Indonesia to train local residents; the company and some of its partners actively recruit programme graduates. Similarly, the China Communications Construction Company (CCCC) and the Industrial and Commercial Bank of China (ICBC) regularly send local employees from developing countries to their corporate headquarters in China for job-related training.

The localization rate among Chinese companies is significant: for example, more than 60% of overseas employees in ICBC, China National Petroleum Corporation (CNPC), Huawei and ZTE are local residents, many of whom are mid- to high-level managers in the overseas branches. Given the relatively anaemic condition of the global economy, Chinese companies have been welcomed by many foreign governments for the employment opportunities that these investment activities have created.

Despite these accomplishments, however, Chinese companies have often been questioned on their corporate citizenship activities in the global community. The negative aspects of Chinese company activities in the globalization process have generated more public attention and media coverage – importing Chinese workers instead of hiring locals, failing to engage sufficiently with local communities, or conducting corporate citizenship efforts with a hidden agenda.

Some of these instances were likely the inevitable result of a large and rapidly growing economy – such as that of China – and of companies that were establishing their first international operations. However, Chinese companies have frequently paid a steep price for these lessons, especially in learning international rules and regulations. In one example, a Chinese company recently submitted a bid for an infrastructure project in South East Asia financed by the World Bank. An investigation determined that the company had colluded with several others on their bids. All seven companies were blacklisted from participating in any future projects financed by the World Bank. The Chinese bidder admitted to taking inappropriate actions in the process and eventually left the South East Asia market.

While debate continues on the image of Chinese Globalizers operating in international markets, our goal in this report is not to dwell on those experiences but rather to focus on the development of corporate citizenship efforts by Chinese companies. To understand the current state of progress, however, it is important to trace the evolution of corporate citizenship development within Chinese corporations over the past decade.
Part II Development of Corporate Global Citizenship in Chinese Companies over the Past Decade

As a formal concept, corporate global citizenship is relatively new in China. Even the similar term “corporate social responsibility” was first widely mentioned only around 2000. However, these citizenship practices existed under other names for decades prior to the country’s economic reforms. In the era of planned economy, state-owned enterprises played a large role in assisting local governments and communities. They offered healthcare and job training for their workers, and maintained full employment as a form of economic contribution. They also built hospitals and schools for their employees’ families, and replaced workers with their sons or daughters after their retirement, to provide a predictable and secure life for everyone. These practices together formed the system commonly known as an “enterprise-run society.”

However, such citizenship practices were not sustainable as they did not help companies to become more efficient. As a result, China reformed its state-owned enterprises (SOEs), through ownership reform and price liberation. An initial outcome of this transition was that many Chinese companies focused purely on profit and growth, leading to many environmental problems. Facing this situation, China actively sought a more effective balance between profitable growth and contributions to society, by learning from foreign companies and joining the WTO.

2001-2005: Re-introduction after joining the WTO

During this period, the re-introduction and development of corporate social responsibility in China was driven by growing domestic demands and, more significantly, by substantial influence from foreign companies.

China’s continued economic reforms and policy of “Opening Up” drew many multinational companies (MNCs) to the country. Organizations like Microsoft and IBM partnered with local institutes and universities to provide education on Internet and software development to young talents. Cisco leveraged its strength in telecommunications to set up e-tools for NGOs in China. International organizations and NGOs such as the International Labor Rights Forum (ILRF), International Labour Organization (ILO) and Global Exchange established standards on safe operation and core business principles.

Through these activities, Western companies introduced the broader concept of corporate social responsibility to China. Chinese Globalizers realized that even though their primary goal is to make money, they also need to contribute back to society. At the same time, while many recently listed SOEs in China had improve on updated requirements on information disclosure and modern management, they were growing extremely rapidly and taking actions that at times resulted in a range of environmental compromise and social problems.

This combination of events raised awareness among the domestic business community and the public of the need for Chinese companies to take responsibility for their actions. In response, Chinese officials began to encourage corporate global citizenship, publishing studies and guidelines at both the centralized and regional levels.

For example, the central government launched “The Scientific Outlook on Development” in 2003. Local governments followed with a number of similar initiatives. The Shenzhen government started tracking social responsibility efforts in 2003 and published a report, “Shenzhen Should Urge Companies to Fulfill Their Social Responsibilities” in 2005. And the Changzhou government established a Corporate Citizenship Standardization Committee in 2004, the first system in the country to create formal standards for these practices.

For their part, China’s SOEs started to conduct early corporate citizenship practices for their domestic operations, and, equally important, began to make these ventures public. CNPC published a “Health, Safety, and Environment” report in 2001 – an early form of corporate citizenship documentation. Similarly, private enterprises also assumed a larger social responsibility role, particularly after they showed early business success and accumulated wealth during the early stage of “Reform and Opening Up”. However, they took a more direct – and potentially less transformative – approach: donations.

Concurrent with these developments, academics, NGOs and other researchers in China began paying more attention to citizenship efforts among large companies. Among other institutions, Peking University established the Center for Civil Society Studies in October 2005, to study and promote corporate social responsibility practices among the country’s large companies and SOEs. As for the NGOs, the Global Environmental Institute (GEI) is one of the few Chinese NGOs that has a global presence: it helped SinoHydro to design its corporate citizenship programmes for a hydropower station in Laos.
2006-2007: Evolution of the corporate citizenship concept

The second big shift in the evolution of corporate global citizenship practices followed in 2006 and 2007. During this period, the central government first raised the concept of social responsibility and developed regional guidelines. The government’s revised Company Law of 2006 required companies to launch social responsibility initiatives, though it did not include specific requirements. The Sixth Plenum of the 16th Central Committee of the Communist Party of China (CPC) in 2006 called for the enhanced social responsibility of citizens, enterprises and other organizations. That same year, the Shenzhen Stock Exchange (SZSE) launched a set of “Guidelines for Social Responsibility of Listed Companies.”

Also during this period, Chinese companies began to standardize and formalize the reports that detailed their social responsibility efforts. State Grid was the first SOE to do so, in 2006. This was in line with a greater number of Chinese companies pursuing global platforms for citizenship. In June 2007, during President Hu Jintao’s visit to Sweden, he re-emphasized the importance of corporate social responsibility. After that, the Ministry of Commerce (MOFCOM) took the initiative to design social responsibility standards while the Ministry of Foreign Affairs supported the United Nations (UN) Global Compact with an annual donation of US$ 10,000. Subsequently, the number of Chinese companies joining the UN Global Compact increased from 4 in 2006 to 22 in 2007 (exhibit 6).

Exhibit 6 – Number of Chinese Companies Joining United Nations Global Compact Each Year

Source: UN Global Compact official website, BCG analysis

2008-present: Accelerated development

The evolution of corporate citizenship practices in China has accelerated since 2008, in part because of growing global awareness but also due to several domestic events. Specifically, the Wenchuan earthquake of 2008 and the Beijing Olympics drew worldwide attention to China, and helped to galvanize public opinion regarding the need for the country’s rapid economic growth to be matched by equally robust social responsibility practices. Consequently, the country has experienced a period of greater social involvement.

In 2008, the State-Owned Assets Supervision and Administration Commission (SASAC) released a formal set of guidelines for how central government-controlled SOEs (CSOEs) could engage in corporate social responsibility (CSR) and report their CSR activities.

Following the measures implemented by the Shenzhen Stock Exchange, the Shanghai Stock Exchange (SSE) issued a similar set of guidelines on how SSE-listed companies should disclose information on the environmental impact of their operations. In August 2009, both stock exchanges published social responsibility indices that aim to help Chinese investors factor corporate citizenship into their investment decisions.
Given that public companies on the country’s two leading stock exchanges, along with CSOEs, were now strongly encouraged to publicly disclose their corporate citizenship activities, the flow of information regarding such activity increased dramatically, starting in 2009 (exhibit 7). To provide a guideline for reporting, the Chinese Academy of Social Sciences developed 135 performance indicators for companies to track across four categories (including responsible management, and performance against environmental, market, and social criteria).

Exhibit 7 – Number of Corporate Global Citizenship Reports Published by Chinese Companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>32</td>
</tr>
<tr>
<td>2007</td>
<td>98</td>
</tr>
<tr>
<td>2008</td>
<td>169</td>
</tr>
<tr>
<td>2009</td>
<td>631</td>
</tr>
<tr>
<td>2010</td>
<td>706</td>
</tr>
<tr>
<td>2011</td>
<td>817</td>
</tr>
</tbody>
</table>

Source: Research on Corporate Social Responsibility Reporting in China 2011 by China WTO Tribune

Following this trend, SASAC required all CSOEs to publish corporate citizenship-related reports by 2012. This wasn’t merely a compulsory activity – many senior leaders at Chinese companies expressed a genuine and growing desire to develop more comprehensive citizenship activities. This desire reflected the goal of competing on the global stage with MNCs, not only in business operations but also in addressing social and environmental challenges.

This third phase saw stronger standards, more information disclosure regarding corporate citizenship activities and greater awareness among companies, government and the general public. As a result, the development of the corporate global citizenship concept has continued to accelerate. This creates a virtuous cycle in which companies understand what is at stake, and the objectives and metrics, and seek to implement world-class citizenship practices.

Clarifying the picture is the growing number of research bodies and organizations devoted to studying corporate social responsibility and rating companies based on their citizenship performance. Similarly, the public in China is paying much more attention to corporate citizenship practices – both good and bad – through increasingly prevalent social media. Chinese Internet forums such as Tianya now include posts from individuals about irresponsible actions by companies. Users of Weibo, the Chinese version of Twitter, published photos of environmentally unfriendly activities – e.g. leaking chemicals in Dalian after a series of fires and explosions at a petrochemical plant in that city. Protesters took to the streets, and the company ultimately closed the factory. Such activities signified the importance of corporate citizenship activities by Chinese companies, and also the power of social involvement.

SASAC released corporate social responsibility guidelines for CSOEs in 2008

Guidelines: CSOEs should actively embody their responsibilities and set good examples for other enterprises in practicing corporate social responsibility, so as to promote the building of a harmonious and affluent society.

Requirements: CSOEs should enhance the awareness of corporate social responsibility, actively implement corporate social responsibility and set an example of legal and honest business operations, resource-saving and environmental protection. CSOEs should also serve as the model for building human-oriented and harmonious enterprise, and become the backbone of China not only of the economy but also in terms of corporate social responsibility.

Measures: CSOEs should establish a system and mechanism for practicing corporate social responsibility. Corporate social responsibility should be integrated into corporate governance and business strategy, and implemented on all levels of a company’s daily operations. CSOEs should also identify a department to handle corporate social responsibility affairs and gradually build a statistical index and assessment system for corporate social responsibility. For those enterprises in a leading position in terms of corporate social responsibility, a formal corporate social responsibility performance evaluation system can be set up.

Disclosure mechanism: Enterprises with experience in corporate social responsibility work should establish a disclosure mechanism, providing updates and regular information about their performance and sustainable development, along with plans and measures for engaging in corporate social responsibility.

Source: SASAC official website
Part III Current Citizenship Efforts of Chinese Globalizers

After more than ten years of corporate citizenship development and involvement in the global context, many Chinese companies have implemented good citizenship practices as part of their overseas engagement, ranging from daily operations to being listed on foreign stock exchanges. This section provides a snapshot of the practices conducted by Chinese Globalizers in other pillars above their baseline economic contributions. To identify these practices, we studied the corporate citizenship-related reports of 75 Chinese companies with large overseas operations. We also analysed the activities of 20 private companies and spoke to senior executives at all companies (see Appendix 1, “Methodology and Selection of Case Studies”). The results indicate several key characteristics across four major categories: employment-related practices, community engagement, green technology and multi-company ecosystem involvement.

Corporate governance and practices

Listing on public stock exchanges has been one of the main drivers in the development of corporate governance, among other factors. Since the establishment of the Shenzhen and Shanghai Stock Exchanges in the early 1990s, more than 2,000 domestically listed companies are obliged to comply with key disclosure requirements. Though there is still room for improvement, this shift has spurred the information disclosure and modernization of corporate governance among vast Chinese companies. Moreover, as part of the “Going Out” strategy, around 700 Chinese companies are now listed on overseas stock exchanges, to obtain capital from foreign markets, among other reasons. Given the comprehensive requirements of foreign stock exchanges, many Chinese companies are now following rules and standards that are widely accepted across the globe.

In addition to the increasing involvement of Chinese companies in the UN Global Compact, we also observed that more Chinese companies are publishing corporate citizenship-related reports according to sophisticated global standards such as the Global Reporting Initiative (GRI). GRI reports look at 155 performance indicators across six aspects of corporate performance (human rights, labour practices, product responsibility, environment, economy and society) and is perhaps the most detailed and comprehensive reporting standard. Domestically, the Chinese Academy of Social Sciences (CASS) proposed a reporting system for Chinese companies. Of the Globalizers evaluated, 36 followed the GRI standard and 22 invited third parties such as Det Norske Veritas (DNV) to audit or provide comments to their reports (exhibit 8).

Exhibit 8 – Percentage of Reports Published According to Domestic or Global Standards, 2011

![Percentage of Reports Published According to Domestic or Global Standards, 2011](chart)

1. Guidelines of the Shanghai Stock Exchange
2. “Third Generation G3” of the Global Reporting Initiative’s Sustainability Reporting Guidelines
3. Guidelines of the Shenzhen Stock Exchange
4. Corporate Social Responsibility Report Preparation Guide 2.0 by Chinese Academy of Social Sciences

Note: Some reports are following other standards, including ISO 26000 Guidance on social responsibility, Guidance on Social Responsibility for Chinese Industrial Enterprises and Associations, AA1000 series of standards, Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, etc., and 21% of the reports are following multiple standards.

Source: Research on Corporate Social Responsibility Reporting in China 2011 by China WTO Tribune
Safety of operations is another heated topic among Chinese companies, and one where some organizations have made significant strides. Sinochem also offers an example in its overseas operation. By establishing a full lifecycle Health Safety and Environment (HSE) management system with all relevant stakeholders, the company substantially reduced the operational risk in its United Arab Emirates offshore gas field operation (Case Study 1).

A few of the more progressive companies have begun expanding their governance to their supply-chain partners. For example, Baosteel provides incentives to its suppliers who demonstrate better overall corporate governance performance. While this is not yet common, it is a leading practice.

In sum, while there is room for improvement regarding corporate governance, many Chinese companies have made significant strides. These efforts should be encouraged and supported by all relevant stakeholders to accelerate this progress.

**Case Study 1**

Sinochem implemented a full lifecycle health, safety and environment (HSE) management system to improve safety.

Beginning in 2002, Sinochem has diversified into oil and gas exploration and development. However, offshore oil fields can pose environmental threats in the form of oil spills which impact local marine environments and also present dangerous working conditions for employees.

To address these challenges, Sinochem deployed a full lifecycle health, safety, and environment (HSE) management system. The company engaged with all stakeholders in management, production and all steps along the value chain, including clients, contractors and suppliers. The HSE system includes all stages of operations, such as design, procurement, transportation and production, not only for in-house operations but also for newly acquired and divested companies (exhibit 9). The system imposes strict rules, including adherence to industry offshore operations standards, building preventive maintenance systems for platform facilities, and establishing clear lines of accountability for safe production – all indications of corporate governance practices.

Sinochem used this HSE management system when it opened the gas production facility in Umm al-Quwain (UAQ), United Arab Emirates, in 2008. The governance initiative has prevented leaks or other environmental pollutants at the UAQ facility. In addition, Sinochem’s HSE efforts have ensured safe operations at the facility – by 27 January 2011, this project had been safely operating for 1,000 days, reaching a 100% operational rate in 2010.

*Source: Company interviews; literature search; BCG analysis*
Corporate philanthropy

Given its direct impact and quantifiable nature, cash donations still represent the dominant form of giving back to society among many Chinese companies. For example, all of the companies we looked at routinely offer financial support to areas hit by natural disasters, particularly the 2008 Wenchuan earthquake. In many cases, companies pledged similar support to foreign countries after other disasters, such as the earthquake in Haiti or the Southeast Asian tsunami. In 2010, Huawei donated more than US$ 1 million in cash and materials to Venezuela, Colombia, Mexico and Vietnam, which all suffered from severe flood disasters. After the Japanese earthquake, Sinopec donated the equivalent of US$ 4.6 million (RMB 30 million) to Japan.

While the above list could be longer, corporate citizenship is expanding beyond mere philanthropy. Many Chinese companies are adopting social investment practices since they now consider that to be a more direct and effective approach to impact the local people and community. For instance, Sinochem initiated a social fund and invested more than US$ 300,000 in Ecuador on projects to help disabled children receive a formal education, as well as bringing local crops to market. After Chinalco signed a mining contract with a Peru local government, they invested more than US$ 50 million to build a water-treatment plant. Such philanthropy practices not only benefit their direct recipients, but also bring tangible benefit to the companies. (Case Study 2)

Moving from a simple cash donation to a more integrated approach, Chinese companies are promoting corporate philanthropy to another level.

Social responsibility

Environmental protection has risen to be the number one social-responsibility issue for Chinese companies operating in both domestic and international markets. Given the increasing relevance of climate change and other environmental factors, green technology is an acknowledged area of focus for many Chinese companies across a range of industries. Environmentally friendly products and practices help to reduce costs and improve energy efficiency, delivering benefits to society and the bottom line. Among the 95 companies the study sampled, more than 90% documented their energy-efficiency improvement and emissions-reduction practices. Others have established internal programmes to address concerns like product recycling and environmental protection.

For example, Lenovo set up product end-of-life initiatives to collect used PCs from individuals and companies in 50 countries. The scale of recycling doubled in the first four years of Lenovo’s programmes. The company partners with recycled-goods manufacturers to reuse the parts in several of its PC product lines. From 2005 through 2010, Lenovo used more than 28,000 tons of recycled components in its new products, such as the L series computers, comprising 18% of recycled materials.

Similarly, Haier has joined forces with eight global companies, including Dow Chemical, in an R&D alliance to reduce chlorofluorocarbons (CFCs) in its consumer electronics. (Case Study 3)

Case Study 2

Chinalco invested in water-treatment plant in a Peruvian community after an acquisition

When Chinalco sought to acquire Peru Copper and obtain development rights of Toromocho copper mining project in Peru, it faced environmental requirements from local government. Mining operations in the region by other companies had led to serious environmental problems over the previous 70 years, hence the Peruvian government often tries to control the situation, and many residents feared that Chinalco’s operations would repeat or aggravate those problems.

After studying the problem, Chinalco took action to resolve this issue. After obtaining the development rights to the Toromocho copper mining project, Chinalco built Kingsmill tunnel wastewater treatment plant in 2008 to fulfill its commitment to the Peruvian government. At the end of 2010, the wastewater treatment plant officially became operational. During the construction, Chinalco invested more than US$ 50 million to design and construct the plant, adopting advanced technology from around the world.

These steps achieved a win-win result. For society, the treatment plant purified local water supplies for local people and radically solved the pre-existing water pollution problem.

For the company, Chinalco successfully developed mines in its target market and defused any potential resistance by local residents, prevalent in that area.

Source: Company interviews; literature search; BCG analysis

Case Study 3

Haier founded an R&D alliance to develop green technologies for its consumer electronic products

Given the growing relevance of environmental concerns, consumers are increasingly aware of pollution and other negative impacts caused by their household electronics. For example, products such as air-conditioners and refrigerators can cause fluorine pollution. To meet this challenge, Haier developed a “green strategy”.

Implementing this strategy involved extensive engagement with key stakeholders. Haier cooperated on R&D projects with companies such as Dow Chemical, Fisher & Pakkel and BEST to develop green technologies for its residential products. It also made changes to its supply chain, establishing Green Procurement Partnerships with more than 50 key suppliers. Haier also worked with competitors to improve the overall industry – it initiated the “Low Carbon Inverter CFC-free Air Conditioner Alliance” with eight leading companies, including Mitsubishi and Panasonic, among others.

These efforts generated benefits to society by preventing the environmental pollution caused by fluorine emission, an example of Corporate Social Responsibility. Haier’s green strategy also led to benefits for the company. Haier met the Energy Star standard, and it received the highest subsidy in the United States, Italy and Greece due to its green innovations. Moreover, the strategy helped to build up a green image for Haier Group around the world.

Source: Company interviews; literature search; BCG analysis
Supply chain management is another important topic today, given the increasing complexity and interdependence of supplier networks. As part of its business relationship with major corporate customers, Huawei had to meet certain supplier requirements. In turn, Huawei has organized CSR training for its own suppliers, a process that dates back to 2000 (Case Study 4).

Maintaining employment levels is another notable social responsibility practice, particularly during the financial crisis and subsequent economic slowdown. During the last global slowdown in the early 2000s, while other shipping companies were moving out of ports such as Boston in the United States, China Ocean Shipping (Group) Company (COSCO) established operations in the port of Boston, saving 9,000 jobs that would have been lost. In addition, COSCO launched a port-efficiency programme that created an additional 7,000 jobs the following year. In 2008, China Nonferrous Metal Mining (Group) Co. Ltd (CNMC) deliberately maintained full employment and production capacity in Zambia during the financial crisis. Similarly, after Minmetals completed the acquisition of Australian-based Mineral and Metals Group (MMG) in 2008, Minmetals retained all 5,000 local workers. Minmetals went one step further, providing training and job opportunities for indigenous people, in accordance with the company’s localization strategy (Case Study 5).

Social responsibility ranges from external factors such as environmental protection and CSR training for suppliers, to internal efforts such as workforce stability. Mastering these issues is critical to a company’s success in both the short and long term.

Case Study 4
Huawei provides CSR training for its suppliers

Huawei was initially required by its European customers to provide CSR certification for its suppliers. European clients expected Huawei to take the lead in promoting the corporate citizenship concept along the entire IT value chain, to improve CSR awareness and drive greater improvements. This posed a challenge to Huawei – suppliers who did not understand the requirements or know how best to meet them would potentially harm the relationship with Huawei.

To prevent this, Huawei began training its suppliers. The earliest efforts at the beginning of 2000 were mostly one-on-one audits and certification. Later, Huawei organized some regional supplier CSR training conferences, making the information-sharing process more efficient. Since 2003, Huawei has established a supplier certification process by incorporating CSR requirements into its criteria for certifying, choosing and managing suppliers. Those with better CSR performance receive more business opportunities with Huawei.

These efforts generated clear benefits for society, in the form of greater CSR awareness among Huawei’s extended supply network. The training also benefits Huawei, in that it has a more stable supply chain and enjoys greater confidence among its global customers. Since then, Huawei has continued to develop the training process. Since 2009, Huawei has organized an annual supplier CSR training conference with its suppliers, customers and experts. It also conducted a risk assessment of more than 670 global major suppliers with a “CSR Risk Assessment Toolkit” which assigned risk grades to each supplier. The grades help Huawei sort its suppliers according to their grade, and to manage each category using the most effective techniques to generate improvement.

Source: Company interviews; literature search; BCG analysis

Case Study 5
China Minmetals hired indigenous workers in its foreign operations

China Minmetals enterprises in Australia have many operation sites located in the communities of indigenous people, such as the Century and the Golden Grove sites. The company has to comply with local government hiring requirements, but China Minmetals goes beyond those requirements to help improve these communities.

For example, the Century site has signed the “Gulf Communities Agreement” (GCA) with the Queensland government and four indigenous groups to provide education, training and employment opportunities for the people of the lower Gulf region, as well as cultural and environmental assurances. These programmes have helped people in these communities leave welfare and become economically self-sufficient. In addition, China Minmetals helps locals to participate as fully as possible in the mine and related ventures, and ensures that the standard of health, employment rates, education opportunities and other social indices of the people of the Gulf are comparable to that of ordinary Australians. In some cases, the job training and skills help local people to find work even after the mines close.

For example, the Golden Grove mine implemented the Bayalgu Pre-employment Training Programme, which seeks to improve indigenous representation in employment in Western Australia’s Mid West region, while addressing projected skills shortages and resource industry growth.

For society, China Minmetals Enterprises in Australia provides education, training and employment opportunities for the local indigenous population, as well as cultural and environmental assurances. As of December 2010, 21% of the workforce at Century mine, and 2.5% at Golden Grove, comprised indigenous people.

Meanwhile, for the company, hiring local workers helps the company to better understand local market and culture, facilitating its operations. Also, the hire of local workers has not only minimized the cost of sending Chinese workers to Australia, but also hedged the risk of increasing labour costs in China.

Source: Company interviews; literature search; BCG analysis
Trina Solar adopted a vertically integrated business model

Solar energy is emerging to address energy-supply issues and climate change, but the industry faces several challenges. The cost of solar power generation is still higher than that of coal-fired power and solar energy transmission is not as stable as that drawn from traditional sources. Consequently, solar power requires large-scale use to lower generation costs and improve transmission stability.

Trina Solar resolved these issues by adopting a vertically integrated model. As part of this model, the company focuses on the elements of the value chain where it has strategic advantages, such as enhancing R&D efforts, realizing production synergies and improving the efficiency of its products. In addition, it outsources steps where it has no advantages and adjusts its manufacturing capacity based on market changes. The result is a flexible and integrated production capability. To support its business model, Trina Solar set up a large industry zone to bring its suppliers closer and carried out collaborative research activities. This approach generates clear benefits for society. Trina's business model innovation has improved cost effectiveness and helped to promote a new energy industry that will reduce global dependence on traditional energy sources such as oil and natural gas. It will also promote the orderly development of an industry to supply solar technology.

In addition, Trina also cooperates with NGOs to provide sub-assemblies for areas that currently lack electricity or signal coverage.

Trina's integrated business model generates benefits for the company, which now has advanced global competitiveness, with the very low power-generation costs. Pittiglio Rabin Todd & McGrath (PRTM), a management consulting subsidiary of PwC, ranked companies in the global solar industry according to their financial stability: Trina Solar ranked No. 1 in 2011. This dominant market position has allowed Trina Solar to help China build the first State Key PV Research Laboratory, which brings related companies together for joint R&D projects. The company also actively participated in developing technical specifications such as submitting standards to IECTC82 to help standardize the industry. Finally, the company takes steps to ensure product quality during production, to maintain the healthy development of the overall solar industry. It advocates a rational stance towards the future potential of solar power, given that the long-term outlook still remains unstable.

Source: Company interviews; literature search; BCG analysis
While social enterprises may be the most obvious category of businesses that qualify in this category, social entrepreneurship actually exists in many other forms, often as small as a single project. For example, CITIC Construction realized a significant business opportunity in Angola by developing creative solutions, based on a deep understanding of the local culture, to align their core capabilities and specific social needs in that market (Case Study 7).

Similarly, in Indonesia, the China National Petroleum Corporation (CNPC) developed a system to sell recycled gas to Singapore, creating a new profit centre (Case Study 8).

By developing solutions to align profit maximization and social contribution, the concept of social entrepreneurship has begun to be widely adopted by many Chinese young entrepreneurs. Though most of their companies are still in the early stage in terms of size and impact, these companies are planting seeds today that will lead to prosperity and social benefits in the near future.

**Case Study 7**

**CITIC Construction assembled a package of social reconstruction and economic development projects to go with its contracting bid for a large-scale housing project in Angola**

CITIC Construction wanted to compete for the contract to construct a huge social housing project in Angola called Kilamba Kiaxi, Angola’s society and economy needed to be rebuilt after years of war and strife.

Without existing experience in the Angolan market, CITIC Construction drew up plans for a localized operation that would be thoroughly integrated with the surrounding community. CITIC built 14 local production facilities, including a brick plant, nursery garden and an aluminium alloy plant. This reduced construction costs but also developed local infrastructure and local job skills that would remain in place after the CITIC project was completed.

In addition, CITIC built a vocational training school to teach former soldiers construction skills, free of charge. So far, more than 150 ex-soldiers have participated, learning new skills that could be applied directly to the housing project. To address food-supply issues, the company also helped build vegetable gardens and brought agricultural experts from China to teach new techniques and expand the quantity and variety of vegetables grown by local Angolans. It also built schools, houses, and hospitals around the construction site and offered medical consultations to local residents.

This approach led to clear benefits for local society. CITIC created significant job opportunities for the local people, leading to social stability and economic development for the community. The project also raised the standard of living in the community and fostered a more vibrant example of Africa. (In 2011 alone, eight heads of state visited the construction site.) Furthermore, CITIC’s engagement with the local community will result in improved job skills, technical expertise and industrial infrastructure, which can help Angolans to rebuild their war-torn country.

Not surprisingly, CITIC’s approach led to benefits for the company as well. Angola’s national leaders invited the company to participate in further construction projects involving infrastructure and agricultural development, and CITIC has already signed several such contracts.

*Source: Company interviews; literature search; BCG analysis*

**Case Study 8**

**CNPC developed a gas-recycling initiative in Indonesia**

CNPC has gas operations in international markets. Its business in Indonesia was impacted when the Indonesian government required that it recycle waste gas.

CNPC invested US$ 320 million in the Betara gas processing plant in 2003 to capture natural gas from three surrounding areas. The Betara facility created value for society by recycling 4 million tons of waste gas each year, and helped the company achieve zero gas emissions in Indonesia.

In addition, the Betara plant created economic benefits for the company. The recycled gas from three surrounding areas increases oil and gas production, and the gas sold to Singapore not only meets 10% of its annual consumption needs, but also generates revenue for CNPC. As a result of this creative solution, CNPC received the “Indonesian special economic contribution” award from the Indonesian Energy and Mining Ministry in 2006.

*Source: Company interviews; literature search; BCG analysis*
Corporate global citizenship

With the rise of globalization, Chinese companies have been playing a much larger role in worldwide industries. In 2009, State Grid actively participated in international organizations and standard-setting activities, such as the International Electrotechnical Commission (IEC), International Council on Large Electric Systems (CIGRE) and Institute of Electrical, and Electronics Engineering (IEEE). In a similar vein, China Mobile collaborated with Bell Labs and other 18 research institutions, operators and equipment manufacturers to launch the Green Touch Initiative, aiming to improve communication network efficiency through technology innovation. This initiative is currently the largest green telecom cooperative effort in the world.

Given this global trend, some successful Chinese companies have developed and tested creative solutions in one market and then applied them to many others, achieving a far greater impact. Huawei’s “Phone Lady” innovation (Case Study 9) and COSCO’s “Economic Speed” initiative (Case Study 10) are two such examples in both emerging markets and mature economies, respectively.

While both Huawei and COSCO have generated some discussions in the global community, their corporate citizenship efforts should be recognized. In fact, given the relative short tenure of most Chinese companies in international operations, few of them are perfect at this time.

To help young Chinese companies advance their citizenship efforts, the next section of this report will review some of the key challenges that have prevented more extensive adoption of such practices and present recommendations to help overcome these obstacles.

Case Study 9

Huawei partnered with local housewives to introduce ICT service in the rainforests of Bangladesh

Information and communications technology (ICT) solutions provider Huawei wanted to expand into Bangladesh, which it identified as an emerging market that lacked mobile phone coverage. However that market presented significant challenges. It showed scattered demand for mobile service, particularly in the rain forests region. People there needed mobile phones for basic communication purposes – for example, when an elder was sick and needed assistance, or when children needed to speak to their parents. However, that kind of demand was too inconsistent and unpredictable for a traditional distribution model to be economically feasible.

Instead of giving up, local operator Grameenphone (GP) and Huawei did extensive research and realized that housewives in remote villages could serve as “phone ladies,” or local distributors. GP and Huawei invented a flexible charging and payment system, which could split the telephone service costs into very small amounts and provide flexible ways of payment. Huawei also partnered with a local telecom provider in Bangladesh to extend coverage into remote rural areas and provided infrastructure for the partnership. The system was further applied to Internet cafés via mobile broadband business and has been used to open hundreds of community information centres.

As a result, local women gained employment opportunities by collecting mobile usage fees at home and earned incomes that were three times the local average. The mobile coverage in remote areas of Bangladesh has increased by more than 50%. At the same time, Huawei also successfully penetrated into a difficult emerging market profitably. The model has been adopted in other developing markets, such as Cambodia, Haiti, Indonesia, the Philippines, Rwanda and Uganda, giving many local people basic telecom services, which illustrates Huawei’s early stage efforts of realizing Corporate Global Citizenship.

Source: Company interviews; literature search; BCG analysis

Case Study 10

COSCO implemented “Economic Speed” and shared it with industry partners

The global economic slowdown that began in 2008 led to a significant reduction in global import and export trade, and a corresponding drop-off in shipping volume. This led to an excess of capacity for the entire shipping industry, including COSCO. Other global companies in the industry could respond to the developments with lay-offs. COSCO, however, could not, partially due to to SASAC’s announcement that Beijing’s state-owned enterprises (including COSCO) were forbidden to reduce their headcount in response to the crisis.

Instead of introducing cutting-edge innovations, the company’s solution was to reduce its ships to “economic speed” – slower than the standard speed of merchant ships, which may not generate the highest revenue but maximized capacity use. COSCO also shared business with smaller carriers to help them get through the crisis and develop the overall shipping industry. These practices generated a benefit for society. In addition to absorbing excess capacity, slower speeds reduced the carbon emissions of COSCO’s ships by one-third, and also prevented the loss of jobs.

At the same time, “economic speed” resulted in benefits for the company, in the form of reduced fuel consumption. In addition, the retention of all employees helped save the cost of lay-offs, adding another benefit. Finally, maintaining full employment helped COSCO return to a strong growth posture when the global economy began to rebound; while overall revenue for the shipping industry grew roughly 20% in 2010, COSCO’s revenue grew by 38%.

Furthermore, COSCO shared the idea of “Economic Speed” with other players in the shipping industry at the 2009 World Shipping (China) Summit. Industry participants such as Hanjin (South Korea), KKK (Japan) and Yang Ming Line (Taiwan) joined an alliance to adopt similar measures, creating a multiplier effect. As a result, the sector’s overall fuel consumption and greenhouse-gas emissions have been reduced. The company’s efforts to shape the overall shipping industry show that it is at the early stages of realizing the full Corporate Global Citizenship concept.

Source: Company interviews; literature search; BCG analysis
Part IV Areas for Improvement and Existing Challenges

Despite promising progress observed, several areas for improvement were identified for Chinese Globalizers. This section will assess the most common challenges and discuss the most fundamental obstacles that prevent broader development of corporate global citizenship.

Corporate governance and practices: better transparency

While an increasing number of Chinese companies now publish corporate citizenship reports, a large number still do not. Among CSOE and the listed companies on the Shanghai and Shenzhen stock exchanges encouraged to publish such reports, around three-fourths of them are still not following the guidelines (exhibit 10).

Exhibit 10 – Corporate Global Citizenship Report Coverage in 2011

Among the companies that did publish corporate citizenship reports, many did not follow a consistent structure or disclose balanced information. As yet, there are few standards in place regarding data consistency, with little consensus on which standards companies should follow. Furthermore, a significant number of reports are very loosely organized – some contain fewer than 10 pages (exhibit 11), with high-level messages and little supporting data or specific examples.

Exhibit 11 – Page Number of Corporate Global Citizenship Reports from 2009 to 2011

1. Central government controlled state-owned enterprises
2. Listed companies on Shanghai Stock Exchange Main Board
3. Listed companies on Shenzhen Stock Exchange Main Board
4. Small and Medium Enterprise Board

Source: Literature search; BCG analysis

Note: Number might not add up to 100 due to rounding
Source: Research on Corporate Social Responsibility Reporting in China 2011 by China WTO Tribune
Balanced information is another issue; most reports contain only positive information, and only a minority acknowledges risks or offers any discussion of weaknesses. Until these issues are addressed and the information in citizenship reports becomes more consistent and balanced, the public will have a hard time trusting them. Yet, gaining public trust is the most fundamental goal for information disclosure.

Limited report coverage and credibility together create a shadow over companies’ corporate governance and practices. As a result, transparency — which serves as a catalyst to boost trust between the companies and general public — is severely lacking.

Corporate philanthropy: greater encouragement and guidance

Conditions in China for the practice of philanthropy present several distinct characteristics. First, enterprises continue to be the main donors, contributing 59% of the total domestic donation in 2009 of RMB 54.2 billion, individual donors accounted for 30%, a rise from 20% in 2008, indicating an ascending trend. Second, the private sector has emerged as a main donation force. Some 63% of enterprises that donated more than RMB 1 million in 2009 are from the private sector; private enterprises represent five of the 10 largest donors, while state-owned enterprises comprise only two. Last, disaster relief is the main category of donation recipiency, followed by healthcare and education. This indicates a lack of balance in donations, and a reactive stance, rather than a more deliberate effort to address social issues proactively.

At the same time, recent discussions within society, government and NGOs are challenging the philanthropy model in China, exposing some less-than-flattering behaviours. Some enterprises make fake donations or dramatically exaggerating their donation history, thus tainting philanthropy information and making it less trustworthy to the public. This is a legitimate concern to those enterprises with real enthusiasm in philanthropy and a track record of integrity.

Even among companies making legitimate pledges, the general public in China – and the government in particular— still consider the amount of the donation to be more important than the actual effects of the contribution. This phenomenon reached its peak during the Wenchuan earthquake, when the central government incited companies to compete on the amount they donated, rather than showing appreciation for their altruistic gestures. Such practices amount to a “numbers game” and, again, discourage the donors from more effective and creative approaches to philanthropy.

Furthermore, the government’s overly stringent control of NGOs restricts the development of the non-profit sector. Emerging Chinese enterprises need substantial support from NGOs to help develop their philanthropic practices. However, well-intended but constraining government regulation in effect prevents NGOs from developing their own professional standards in order to meet this need.

Social responsibility: dedicated talent and resources

Among the company reports studied, most of the companies expressed their interest in promoting corporate social responsibility, yet only 43% have a full-time team and resources dedicated to these efforts. This relatively small number does not reflect an oversight on the part of management but rather shows the limited supply of well-rounded talents that can assume this role. (An alternate explanation is that these employees may simply be too valuable to be shared with the core business.) This underscores two problems — a limited supply of talent and insufficient investment in developing such teams.

In fact, these two issues are interlinked. Without investment, companies cannot cultivate well-rounded employees, and without strong employees, companies will be hesitant to invest in developing citizenship practices, since the tangible return on such investments is difficult to foresee.

Given the limited supply of talented employees and resources, there are few practical mechanisms in place to develop and implement more progressive citizenship practices, let alone implementing the requirement of social responsibility more broadly into daily operations. In the absence of such a mechanism, the social responsibility efforts of companies are essentially reduced to a series of random charity acts, with no linkage to their core strength or capabilities.

Social entrepreneurship: wider recognition

Awareness around the world is growing about the sustainable advantages of business models that assess impacts on the environment and society. Yet, many people in China are still to the point of whether such models can be considered as a form of corporate citizenship. This thinking — that such practices do not “count” because they are part of the company’s core business — still focuses on the perceived conflicts between making a profit and contributing to society. Without resolving this conflict, Chinese companies will miss huge business opportunities by focusing on the more basic aspects of citizenship, such as cash donations, which are not sustainable because they do not benefit the company itself.

However, many of the problems discussed in this section — from corporate philanthropy to social responsibility and social entrepreneurship — are self-perpetuating. They stem from a fundamental misperception about the nature of corporate citizenship. As demonstrated by the emerging best practices in the previous section, the most successful and sustainable citizenship practices are not — and should not be — purely altruistic, implying a zero-sum trade-off in which communities benefit at the expense of shareholders. Instead, corporate citizenship initiatives should and could benefit both society and the company at the same time. Ultimately, the best citizenship efforts find the intersection between a company’s strengths and specific social problems. This alignment helps to drive innovative solutions to social and environmental problems and unlocks potential new business opportunities. Yet, as long as senior executives view citizenship as something that one encounters along with the company’s simple goal of maximizing growth and profits, they will restrict their company investment in such practices. In the absence of sufficient examples to show how citizenship ventures can and should be structured, companies will hinder the development of talent and ideas.

While some argue that government support is a potential solution to this problem, it can actually exacerbate it. Excessive support will bring too much regulation and effectively reduce the incentives for creative innovation. In this light, such regulation will push corporate citizenship only further into the realm of a cost for companies, rather than a potential source of profit.

Corporate global citizenship: more innovation

Since the economic reform of the 1980s, Chinese companies have based their learning process somewhat rigidly on the actions of industry peers in western economies. This strategy, combined with the hard-working culture of many Chinese people, sharpened the learning curve and made China the No. 2 economy in the world in just 30 years, creating huge advances in living standards for its large population. However, while many Chinese people are still eager to learn “best practices” from western competitors, this strategy of following others is approaching the limit of its effectiveness. In fact, the current situation has proved again that no single solution fits all.

While it is true that one should always learn from others, the question is how best to learn? In the absence of a “silver bullet,” the Chinese must rely on themselves to find the most effective solution. Companies are clearly learning by following, but they are less able to adapt and develop solutions that best match their own situation and capabilities. This is a crucial task to operate in foreign markets — not only in core business operations but in corporate citizenship efforts as well.

Examining the current level of development in corporate global citizenship among many Chinese Globalizers, companies have made notable progress to date. However, this could be vastly accelerated with a broader understanding of corporate citizenship, better communication and information sharing, and more innovation.
Part V Recommendations for Existing and Potential Chinese Globalizers

To further develop corporate global citizenship among Chinese businesses with established overseas operations, or those actively seeking globalization, we call for:

- a culture of corporate citizenship
- a culture of information sharing and open discussion
- a culture of innovation

To become a corporate global citizen is a process, a long journey. The recommendations that follow are intended for Chinese companies and the Chinese government, to provide the support required to set out on this journey.

Recommendations for Chinese Companies

1. Define a clear goal to align business strategy and corporate citizenship

Successful business strategy and corporate citizenship are not mutually exclusive. In fact, the relationship between these two should not require balance or compromise, or the sacrifice of long-term gains for short-term considerations (or vice versa). Instead, companies should find a solution that aligns their strategy and citizenship efforts so that these two aspects of the business support each other and generate new opportunities on both fronts.

Such an approach requires that companies adopt a selective posture in choosing the citizenship ventures they will pursue, focusing on initiatives that lie within their existing range of capabilities, experience and expertise. As the case studies illustrate, companies that choose wisely can boost the business side within a relatively short period while also fulfilling citizenship requirements, which will benefit the company over the longer term.

2. Invest sufficient resources and develop a dedicated internal team, with senior executive or board sponsorship, to integrate corporate citizenship requirements into daily business operations

Companies must build up corporate-level mechanisms to integrate corporate citizenship requirements into their daily operations. To achieve this, talent is a must. Companies must develop skilled employees and managers who can communicate the core understanding of citizenship throughout the company, and even along the value chain in which they operate.

On this front, some Chinese companies have partnered with research firms or academic institutions, such as CASS, while others are building up their internal capabilities.

Exhibit 12 – Baosteel’s CSR Mechanism

Case Study 11

Baosteel’s corporate global citizenship-related research institute

Baosteel established a corporate global citizenship-related research institute within its own organization, part of a strong focus on citizenship that the company implemented in 2008. It created a committee with operational oversight, but it sought to combine theory with practice, so it launched the Baosteel Economic Management Research Institute to prioritize global citizenship initiatives (exhibit 12).

In 2010, the company conducted research on its CSR evaluation system. It assembled a project team with internal experts from the institute, along with representatives from each Baosteel department and external experts. Together, they assembled a scorecard that considers seven core functions of the company, with multiple CSR indices at different levels for each function. This approach offers a standardized, scientific basis for evaluating the company’s CSR work at all levels and in all processes.

Source: Company interviews; literature search; BCG analysis

A few other leading companies, such as CMCC and Huaneng, have also developed internal monitoring systems to track their citizenship performance.
3. Communicate more effectively with the public by reporting more comprehensive information on corporate citizenship

Many Chinese Globalizers have created an information base for their corporate citizenship-related reports and are now publishing detailed reports in China. However, companies could consider other innovative means by which to deliver this information to the public in other markets. For example, more than half of the sampled companies offer English-language versions of their corporate citizenship-related reports. In addition, regional reports are still limited. Currently among the Globalizers, only CNPC, Sinosteel and Minmetals have published regional reports to communicate directly to the local community (exhibit 13). Such practices have been well received and have served as the beginning of a greater transparency effort.

Exhibit 13 – Regional Corporate Global Citizenship Reports by Chinese Globalizers

![Sinosteel in Australia](image1)

![Sinosteel in Africa](image2)

![CNPC in Indonesia](image3)

![Minmetals in Australia](image4)

Source: Company and expert interviews, literature search, company corporate global citizenship-related reports

4. Engage more effectively with various stakeholders through active participation in regional and global multistakeholder dialogue platforms

Communication is paramount. Chinese companies must become more comfortable in discussing not only the end results of their citizenship efforts, but also the thinking that underlies those efforts, which might still be at the early stage. By sharing citizenship practices – both end results and specific lessons learned – companies can accelerate their progress along the path towards corporate global citizenship.

In short, it is not enough to succeed; companies must learn why they succeeded and know how to replicate that success in other markets with different contexts. Furthermore, by sharing their experiences in an open discussion platform, companies will help others to succeed and spread more innovative practices, which will help to drive industry-wide prosperity in the long run.

It is encouraging to see that more and more Chinese companies are participating in global forums to share their thoughts. Minmetals and COSCO have been invited to join the UN Global Compact LEAD in 2010 and 2011, respectively. (LEAD is a group of 50 global companies that have demonstrated corporate sustainability leadership.)

5. Build in organizational flexibility allowing companies to create innovative solutions to changing environments

Finally, adaptability is crucial for Chinese Globalizers, which face vastly evolving market situations that span different languages, cultures and socio-political contexts. In order to compete in these markets, each Chinese Globalizer needs to build in sufficient flexibility to adapt its operations to local needs with innovative solutions. In this effort, companies will need to increase their scope of localization, provide leadership and strategy education to managers on the ground, which, in turn, will ultimately shape the unique development path for these Chinese companies.

Case Study 12

COSCO implemented an IT system to collect, analyse and report both internal and external citizenship information, and uses the data to drive strategy

Internally, COSCO spent nearly a decade implementing an IT system that can record and track corporate citizenship activities for all of its business units. The system assesses 74 main indicators and 726 sub-indicators so that management can easily gauge the company’s current performance in the aggregate or along specific parameters. The system also encompasses seven years of data so that current citizenship activities can be benchmarked against historical outcomes. Through this system, COSCO has streamlined the record-keeping process and developed common corporate solutions so that good ideas from one division can be applied to the entire organization. This was the first such application of IT to corporate citizenship in China.

Externally, COSCO not only published more than 200 indicators via its sustainability reports to the general public, but also discussed the industry trend with global experts and industry participants in its annual World Shipping (China) Summit. Additionally, COSCO is an active member in many other global platforms, such as United Nations Global Compact, World Economic Forum, etc. The company’s active engagement not only helped, spread its thinking with global community, but also shaped its own strategy by incorporating the input of various stakeholders with diversified perspectives.

Source: Company interviews; literature search; BCG analysis
Support needed from the Chinese government

In addition, private and public sector partnership is indispensable to achieve this goal. The following recommendations are proposed to the Chinese government on this initiative:

1. **Promote a better understanding of corporate citizenship among the general public in China**

   Rather than emphasizing charity work or generic social issues, government should recognize the interdependence between business and society. To encourage better results and build a nationwide culture of citizenship, the government should sponsor research institutes and provide incentives to encourage greater social involvement.

2. **Provide research and training on corporate citizenship**

   The government can partner with academic institutions, NGOs and other organizations to sponsor further research on corporate citizenship both within China and in overseas markets, particularly in regions with substantially different business customs and norms. For example, some countries require greater involvement from the private sector in certain aspects of business than China, where the role of government in the national economy is still significant. In addition, some countries have well-established networks of NGOs, which can offer critical assistance for the companies that foster relationships with them, yet NGOs still have a limited presence in China.

   In addition, the Chinese government could train its representatives in foreign countries so they could help to guide Chinese companies operating in foreign markets on corporate citizenship practice, build relationships with local NGOs and engage with local communities.

3. **Continuously require better information disclosure by Chinese companies**

   The guidelines set forth by the State-owned Assets Supervision and Administration Commission (SASAC), the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) are a good start and should be expanded to a broader reach of Chinese companies, with more practical instructions. Also, the government could consider adopting an international information disclosure standard among the Globalizers – such as the GRI – to facilitate the sharing of information with the global community. In this same category of information credibility, government can encourage independent third parties, such as audit firms, academia, NGOs and the media to comment on the quality of citizenship reports and provide constructive feedbacks for further improvement.

4. **Promote multistakeholder dialogue that encourages companies to learn from other leading companies, both domestically and internationally**

   Government can encourage companies to exchange ideas and learn from worldwide industry peers, in order to help them to develop programmes that will create value for the company, society and the environment at the same time.

   Moreover, government should encourage the media and the general public to offer constructive suggestions for companies, which would foster greater dialogue and help to achieve win-win situations.

5. **Allow for greater flexibility to create innovative solutions in overseas operations**

   Finally, the Chinese government can afford more flexibility to companies as they build up their corporate citizenship practices. This is still a new and developing area for most Chinese Globalizers, and they will inevitably encounter some challenges and learn lessons from their early efforts. Rather than setting more rules to prevent such mistakes from occurring again, the government can help to accelerate the development of corporate citizenship throughout the national economy by allowing some flexibility on citizenship requirements and the achievement of specific performance targets. By doing so, the companies will have more space to create innovative solutions to tackle local challenges, which will ultimately accelerate the process of globalization.
Conclusion

While China’s largest companies have taken notable steps in introducing corporate citizenship in both domestic and international markets, this report focuses specifically on overseas ventures. In those efforts, some Chinese companies – including state-owned enterprises – have made significant strides towards citizenship, boosting local markets, creating jobs, launching environmental initiatives and helping to foster a new crop of social entrepreneurs.

While progress in these efforts is encouraging, Chinese companies should be aware that promoting the development of corporate global citizenship is a complex issue and they still have a long way to go. They should maintain the strong momentum they have achieved so far and consistently strive towards the ultimate goal of implementing world-class citizenship practices. By achieving that, they will pave the way to achieving a harmonious society in which the interests of the business world are aligned with the interests of the global community.

This report, including proposed recommendations and planned follow-up activities, represents an initial step by the World Economic Forum, with support from The Boston Consulting Group, to help more Chinese companies become corporate global citizens. We believe that our joint effort can help companies to achieve the common vision of “improving the state of the world” in a timely manner.
Appendix 1 – Methodology and Selection of Case Studies

We sampled the corporate citizenship-related reports of 75 large Chinese companies with international operations ranked top 50 by foreign direct investment, overseas assets, or overseas revenue in 2010, according to the Ministry of Commerce of the People’s Republic of China. To balance the coverage, we included an additional 20 companies, mostly privately owned. (exhibit 14)

Exhibit 14 – Industry and Ownership Distribution of 95 Sampled Companies

<table>
<thead>
<tr>
<th>Industry &amp; Infrastructure</th>
<th>Conglomerate</th>
<th>Consumer &amp; Healthcare</th>
<th>Energy</th>
<th>Finance</th>
<th>ITTC</th>
<th>Mobility</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned (70)</td>
<td>28</td>
<td>7</td>
<td>3</td>
<td>10</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Private (25)</td>
<td>4</td>
<td>-</td>
<td>9</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total (95)</strong></td>
<td><strong>32</strong></td>
<td><strong>7</strong></td>
<td><strong>12</strong></td>
<td><strong>13</strong></td>
<td><strong>9</strong></td>
<td><strong>9</strong></td>
</tr>
</tbody>
</table>

1. ITTC stands for Information Technology & Telecommunications

We also interviewed 130 senior executives, researchers and subject experts to establish some context for our findings and gain insights to the overseas operations of many Chinese Globalizers (see Appendix 4). Beyond that, we were inspired by numerous books and reports related to the subjects at hand.

While many companies are at an early stage of their efforts, several organizations were identified that had already achieved promising results in certain citizenship areas or regions, and the senior executives in these companies were interviewed. Rather than analyse the companies as a whole, our goal was to highlight the specific practices creating win-win scenarios for both the society and the companies in each particular case. Within that dimension, we also sought to include a range of industries, geographies and corporate citizenship strengths according to the corporate global citizenship framework.

The resulting list of 10 practices is not intended to be definitive, exhaustive or exclusive; it is simply a broad cross-section of current citizenship practices among Chinese Globalizers (exhibit 15). In addition, we document two case studies of internal organization initiatives aimed at improving global citizenship: Baosteel and COSCO.

Exhibit 15 – Region, Industry and Type of Corporate Global Citizenship Distribution of 10 Selected Case Studies

Source: Company interviews; literature search; BCG analysis

Ten Case Studies

1. Sinochem Group 14
2. Aluminium Corporation of China (CHINALCO) 15
3. Haier Group 15
4. Huawei Technologies Co. Ltd 16
5. China Minmetals Corporation 16
6. Trina Solar Ltd 17
7. CITIC Construction Co. Ltd 18
8. China National Petroleum Corporation (CNPC) 18
9. Huawei Technologies Co. Ltd 19
10. China Ocean Shipping Group Co. (COSCO) 19

Internal Organization Studies

11. Baosteel Group Corporation 22
12. China Ocean Shipping Group Co. (COSCO) 23
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## Appendix 3 – Chinese Companies Cited in the Report

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<td>Aluminium Corporation of China (CHINALCO)</td>
<td>15</td>
</tr>
<tr>
<td>Bank of China (BOC)</td>
<td>8</td>
</tr>
<tr>
<td>Baosteel Group Corporation (Baosteel)</td>
<td>14, 22</td>
</tr>
<tr>
<td>BYD Company Ltd (BYD)</td>
<td>17</td>
</tr>
<tr>
<td>China Communications Construction Company (CCCC)</td>
<td>9</td>
</tr>
<tr>
<td>China Huaneng Group (Huaneng)</td>
<td>22</td>
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<tr>
<td>China Minmetals Corporation (Minmetals)</td>
<td>16, 23</td>
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<tr>
<td>China Mobile Communications Corporation (CMCC)</td>
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<tr>
<td>China National Petroleum Corporation (CNPC)</td>
<td>8, 9, 10, 18, 23</td>
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<tr>
<td>China Nonferrous Metal Mining (Group) Co., Ltd (CNMC)</td>
<td>16</td>
</tr>
<tr>
<td>China Ocean Shipping Group Co. (COSCO)</td>
<td>16, 19, 23</td>
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<tr>
<td>China Petroleum &amp; Chemical Corporation (Sinopec)</td>
<td>9, 15</td>
</tr>
<tr>
<td>China Railway Construction Corporation (CRCC)</td>
<td>8, 9</td>
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<tr>
<td>CITIC Construction Co. Ltd (CITIC Construction)</td>
<td>18</td>
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<tr>
<td>Goldwind Science and Technology Co., Ltd (Goldwind)</td>
<td>17</td>
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<tr>
<td>Haier Group (Haier)</td>
<td>15</td>
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<tr>
<td>Huawei Technologies Co. Ltd (Huawei)</td>
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<td>Industrial and Commercial Bank of China Limited (ICBC)</td>
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<td>Lenovo Group Limited (Lenovo)</td>
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<td>Sinochem Group (Sinochem)</td>
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<td>Sinohydro Corporation (Sinohydro)</td>
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<td>Sinosteel Corporation Limited (Sinosteel)</td>
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<td>State Grid Corporation of China (State Grid)</td>
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</tr>
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</table>
Appendix 4 – Acknowledgements*

We would like to thank all interview participants from all sectors of business and society for contributing their insights and time.

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