

# Responsible Business in Africa: Chinese Business Leaders' Perspectives on Performance and Enhancement Opportunities



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AccountAbility

November 2009 | Working Paper No. 54

A Working Paper of the:

**Corporate Social Responsibility Initiative**

A Cooperative Project among:

The Mossavar-Rahmani Center for Business and Government

The Center for Public Leadership

The Hauser Center for Nonprofit Organizations

The Joan Shorenstein Center on the Press, Politics and Public Policy

## **Citation**

This paper may be cited as: Zadek, Simon, Chen Xiaohong, Li Zhaoxi, Jia Tao, Zhou Yan, Kelly Yu, Maya Forstater, and Guy Morgan. 2009. Originally published “Responsible Business in Africa: Chinese Business Leaders’ Perspectives on Performance and Enhancement Opportunities” by AccountAbility and the Enterprise Research Institute, Development Research Centre of the State Council of P.R. China (DRC-ERI), November 2009, available at [www.accountability21.net](http://www.accountability21.net). Corporate Social Responsibility Initiative Working Paper No. 54. Cambridge, MA: John F. Kennedy School of Government, Harvard University. Comments may be directed to the authors.

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The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

The views expressed in this paper are those of the authors and do not imply endorsement by the Corporate Social Responsibility Initiative, the John F. Kennedy School of Government, or Harvard University.

## **Related Publications**

Zadek, Simon and Sasha Radovich. Governing Collaborative Governance: Enhancing Development Outcomes by Improving Partnership Governance and Accountability. April 2006. Corporate Social Responsibility Initiative Working Paper No. 23.

Zadek, Simon. The Logic of Collaborative Governance: Corporate Responsibility, Accountability, and the Social Contract. January 2006. Corporate Social Responsibility Initiative Working Paper No. 17.

Both are available at [www.hks.harvard.edu/m-rcbg/CSRI/pub\\_workingpapers.html](http://www.hks.harvard.edu/m-rcbg/CSRI/pub_workingpapers.html)

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## About this paper

This study explores the understanding and practice of corporate social responsibility (CSR) amongst senior executives of Chinese companies operating in Africa, and in particular the standards which they draw on for guidance, including legal frameworks, company policies and voluntary standards.

It is based on interviews and discussions with senior executives in 22 Chinese enterprises with operations in Africa. These included both large and small enterprises, state-owned and private companies. The process was not designed to evaluate performance but rather to understand and profile the views of these business leaders who are shaping the future course of Chinese business in Africa and elsewhere.

The research was commissioned by The Poverty Reduction and Economic Management (PREM) Vice Presidency of the World Bank Group as part of a broader effort to assess the role of corporate standards and practices as a tool for enhanced environmental, social and ethical governance in developing countries. Financial support was provided by the Department for International Development of the United Kingdom. The research was carried out as a collaboration between DRC-ERI and AccountAbility. The views in this paper are solely those of its authors, and should not be attributed to PREM or any other part of the World Bank Group, or to DFID.

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# List of abbreviations

<b>DRC</b>	Development Research Centre of the State Council of the People's Republic of China
<b>Exim Bank</b>	Export-Import Bank
<b>DRC-ERI</b>	Development Research Center of the State Council, Enterprise Research Institute
<b>CSR</b>	Corporate Social Responsibility
<b>ESG</b>	Environment, social and governance
<b>MNC</b>	Multinational corporation
<b>UN</b>	United Nations
<b>HSE</b>	Health, Safety and Environment
<b>RMB</b>	Renmimbi
<b>TNC</b>	Transnational Corporations
<b>SME</b>	Small and Medium Sized Enterprises
<b>MOFCOM</b>	Ministry of Commerce of the People's Republic of China

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## Summary

In recent years, both bilateral trade and investment by Chinese enterprises in Africa has increased rapidly. According to MOFCOM statistics, from 2003 to 2007, annual Chinese investment in Africa grew from US\$75 million to US\$1.5 billion.<sup>1</sup>

Like all multinational businesses, if Chinese companies are to succeed in creating economic opportunities which mutually benefit their own and their host economies they will need to address the environmental and social challenges and opportunities they face. This means understanding and responding to environmental, social and governance risk, maintaining their formal and informal ‘license to operate’ through productive relations with government bodies, neighbouring communities, workers and suppliers, and helping to secure sustainable development in the region through both their products and services and their influence on the local business environment.

This study, based on a survey and roundtable discussion amongst Chinese enterprises explores the understanding and practice of CSR amongst Chinese companies operating in Africa, and in particular the standards which guide them in implementing CSR, including legal frameworks, company policies and voluntary standards. This work builds on the frameworks established in *“Advancing Sustainable Competitiveness of China’s Transnational Corporations”* which was the outcome of a two-year research study by AccountAbility and DRC into the role of voluntary standards in shaping the competitiveness of Chinese companies ‘going out’ strategies.<sup>2</sup> It also builds on the longstanding work of AccountAbility in advancing the development of international standards for CSR as well as multi-year studies of the business strategies of Chinese companies by DRC.<sup>3</sup>

Most work on the relationship on Chinese business in Africa has understandably and rightly been carried out in Africa, but what has been little understood are the views and intentions of senior business leaders whose decisions and perspectives shape their companies’ global supply chains in Africa and elsewhere. This research is therefore deliberately not designed to be ‘evaluative’ but rather is designed to engage with, understand and profile the views of these business leaders who are shaping the future course of Chinese business in Africa and elsewhere.



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Chinese businesses expanding to Africa are generally pursuing resource-seeking or market-seeking strategies, or combination approaches, which draw on multiple business sectors. Often businesses benefit from ‘coalition investment’ strategies across various sectors to unlock resource-seeking and market-seeking opportunities. In some cases these coalition strategies have been combined into more formal combinations, for example, the ‘Angola model’ of oil-backed loans for infrastructure, or in special economic zones which attract and service diversified Chinese enterprises to invest in Africa.

The competitive advantages of Chinese businesses are that they provide low-cost technology and skilled labour, who are willing to work in difficult environments. Indeed, while the business leaders interviewed recognised difficulties and risks of operating in Africa, they also noted that it is in difficult environments where Chinese companies have competitive advantage over more established international competitors. Chinese companies, and groups of companies are also able to offer end-to-end solutions combining transportation infrastructure, energy generation, and natural resource extraction and refining, again giving them a competitive advantage in the most difficult of operating environments. This is aided by access to long-term capital.

Many of the business leaders see a key strength in China’s approach to international aid and project finance without political policy and governance conditionality. This was linked to the idea of developing a culture of mutual respect between Chinese companies and their African workforce, local communities and government hosts. However other business leaders recognise that there is a link between complexity of governance and the business challenges they face, which may in the longer term undermine their investments.

In general the main drivers for considering corporate responsibility are:

- ▶ Growing awareness of CSR and recognition of the need for sustainable development in Africa, to sustain growth of Chinese enterprises.
- ▶ Promotion and advocacy for CSR by the Chinese government.
- ▶ Response to business partner and investor practices and requirements for social responsibility.

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- ▶ Response to local concerns about Chinese business in Africa.
  - ▶ Need to address environmental and social issues with immediate impacts on operations and costs.
  - ▶ Concern that Chinese businesses performing well will suffer reputation penalties because of less well managed Chinese enterprises.

The general conception of CSR is built on a recognition that contributing to local economic development is central to an enterprise's impacts on society, a commitment to meeting local regulations and environmental laws and a tradition of philanthropic social investment.

However, despite a strategic commitment to mutual development, there is a strong feeling that the combination of approaches to managing corporate social responsibility currently in place still need improvement. All businesses face challenges in working cross-culturally and in places where governance is weak, however for Chinese businesses mainly in their first generation of 'going out' this is a particularly acute challenge. China's reform and opening-up is a gradual process and therefore, Chinese businesses are lacking international experience in working with civil society organisations, while their participation of voluntary standards and collaborative initiatives is just beginning.

Roundtable discussions amongst business leaders and others highlighted that, these challenges are leaving businesses exposed to operational and productivity risks as well as the reputation risks of not fully meeting expectations for social and environmental performance.

Key factors highlighted were:

- ▶ Lack of integrated systems and experience to embed understanding, capacity and practice of CSR into strategy and management structures. Relying heavily on particular managers' perception and experience leads to inconsistency and ad hoc responses.
- ▶ Lack of coordination between 'soft systems' for maintaining good stakeholder relations and 'hard systems' for managing performance can result in local staff not being incentivised to address social and environmental issues.

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- ▶ Lack of experience in engaging effectively with civil society and media or of creating active community partnerships that go beyond philanthropy towards mutual learning and negotiated solutions to shared challenges.
  - ▶ Lack of appropriate standards. Compliance with local laws is not enough in situations where states are weak or fragile and rights and responsibilities are contested. At the same time Chinese enterprises are wary of adopting international standards.

Business executives expressed a need for a framework to systemise the current ad hoc ESG management approaches. It is crucial that this enables and recognises the role of stakeholder engagement and learning in driving performance, and does not just set inflexible and fragmented social and environmental standards. They also called for more opportunities for sharing experiences so that Chinese companies can accelerate their own learning and contribute to the development of a new generation of standards developed by emerging market economies.

Chinese business approaches to CSR will surely evolve in the face of the drivers and ESG issues they face. However the experience of other global businesses demonstrates the considerable pain barrier of denial, confusion and conflict to be overcome, and the opportunities to accelerate learning through collective action to develop expertise and common frameworks for performance.

The capacities of Chinese businesses, including not only business units operating in Africa but also their parent companies, headquarters and global leaders, could therefore be usefully enhanced. This would improve relevant expertise, strengthen the acquisition and internal communication of on-the-ground knowledge, enable sharing of knowledge and good practice between companies, link to multi-stakeholder voluntary initiatives and improve communication with external stakeholders as to both what has been achieved and how aspirations for the future might be met.

Key areas for action therefore are to:

#### **A. Build capabilities**

- i) **Target higher level training** and learning experiences for Chinese business leadership.
- ii) **Incorporate CSR** into existing strategic management training.

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- iii) **Establish a cadre of influencers** through peer-to-peer education via an informal series of roundtables, learning-by-sharing sessions and development of senior leadership networks.
  - iv) **Target CSR networks and training towards ‘future leaders’** amongst emerging Chinese business leadership in clean technology, internet, buildings and other areas that are younger, more connected globally, and open to being leaders in this space.

## **B. Communicate practice and aspirations**

- i) **Develop a case study bank** to share specific experiences from Chinese companies in Africa and other regions in Asia. This would enable companies to reflect and share learning. These case studies should highlight both good practice as well as challenging issues and real dilemmas.
- ii) **Share learning between Chinese businesses and companies from other developing countries** (such as Brazil, India and South Africa) that are addressing the same challenges.

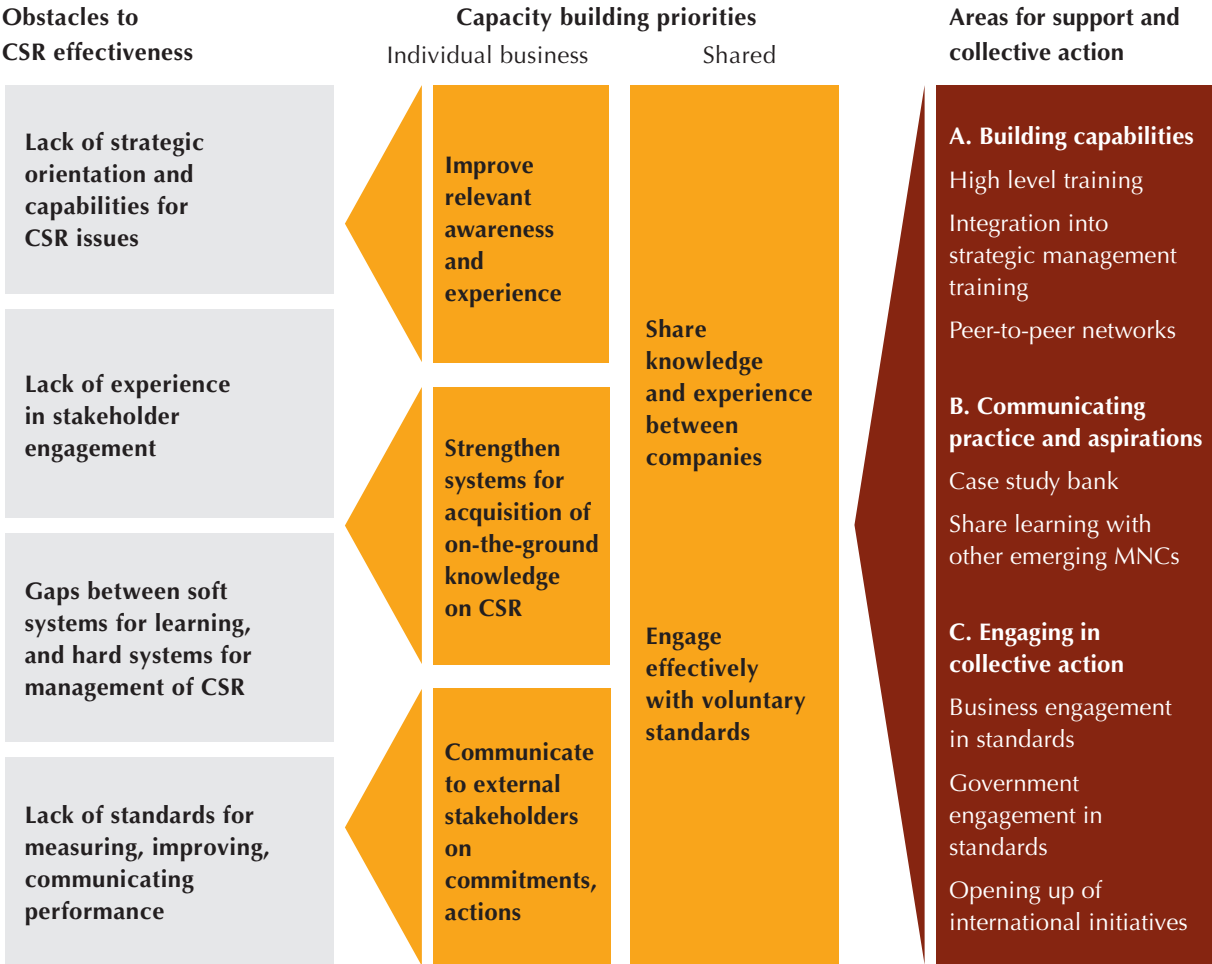
## **C. Develop and engage in collective action**

Action by several key players is crucial:

- i) **Chinese government can be more proactive** in appealing, promoting and guiding Chinese companies to take social responsibility.
- ii) **Engagement by major Chinese businesses** with relevant existing standards, and their development joining in global collective action on issues such as economic development, anti-corruption, transparency climate change and ecosystem stewardship.
- iii) **Engagement by the Chinese government in international standards**, taking an active role where other governments are involved in advancing reviews of their content, positioning and governance.
- iv) **Engagement by international coalitions and sector associations**, in order to move away from their Western dominated roots and actively work to involve more Chinese companies in supporting these activities.

These steps would accelerate learning and leadership on sustainable development issues amongst Chinese businesses, and could help to encourage Chinese companies to join in global collective action on common global issues such as economic development, anti-corruption, transparency, climate change and ecosystem stewardship.

**Summary of Recommendations**



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# Chapter 1: Background to the research

## 1.1 Context

In recent years, both bilateral trade and investment by Chinese enterprises in Africa has increased rapidly. According to MOFCOM statistics, from 2003 to 2007, annual Chinese investment in Africa grew from US\$75 million to US\$1.5 billion.<sup>4</sup>

Like all multinational businesses, if Chinese companies are to succeed in creating economic opportunities which mutually benefit their own and their host economies, they will need to address the environmental and social challenges and opportunities they face. This means understanding and responding to environmental, social and governance risk, maintaining their formal and informal 'license to operate' through productive relations with government bodies, neighbouring communities, workers and suppliers, and helping to secure sustainable development in the region through both their products and services and their influence on the local business environment.

The Poverty Reduction and Economic Management (PREM) Vice Presidency of the World Bank Group commissioned this work as part of a broader effort to assess the role of corporate standards and practices as a tool for enhanced environmental, social and ethical governance in developing countries. The aim of this research is to explore current strategic thinking on environmental and social risks and opportunities amongst business leaders of Chinese companies operating in Africa. In particular it looks at the standards which guide them in implementing CSR, including legal frameworks, company policies and voluntary standards.

## 1.2 Research process

Most of the work on the relationship on Chinese business in Africa has understandably and rightly been carried out in Africa.<sup>5</sup> But what has been little understood are the views and intentions of senior business leaders whose decisions and perspectives shape their companies' global supply chains in Africa and elsewhere. This research is therefore deliberately not designed to be 'evaluative' but rather is designed to engage with, understand and profile the views of these business leaders who are shaping the future course of Chinese business in Africa and elsewhere.

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The project was therefore based on:

- ▶ **Interviews with 22 Chinese enterprises** conducted by: Chen Xiaohong, director of DRC-ERI, Li Zhaoxi, vice director of DRC-ERI, and researcher Li Guoqiang, along with specialists from AccountAbility. Enterprises included both large and small enterprises, state-owned and private companies, and the interviews explored their awareness of ESG risks to their business in Africa and their response in terms of management of social responsibilities. In each case the interviews focused on understanding the company's operations in Africa, its vision of social responsibility and its management of these responsibilities in Africa.
- ▶ **Secondary desk-research** to provide supplementary background and knowledge on the companies in the study, as well as international perspectives on China and Africa's development.
- ▶ **A roundtable discussion**, held in Beijing on April 24 2009. This brought together representatives from Chinese businesses; the Ministry of Commerce of the P.R China; the Export-Import Bank of China as well as international institutions (the World Bank, the UK Department for International Development (DFID) and AccountAbility); academia (CASS) and the grassroots organisation CABC to discuss the initial interview and research findings.

This research is not a representative sampling exercise or a statistical analysis of responses, but rather reflects on the numerous conversations and discussions that took place through interviews and the roundtable discussion. Although we highlight some quantitative results, based on unprompted mentions of particular issues in interviews, these should be viewed as indicators of possible relationships and trends to be explored rather than as a strong evidence base.

The research was carried out as collaboration between DRC-ERI and AccountAbility. It builds on the frameworks established through a two-year research study into the role of voluntary standards in shaping responsible competitiveness strategies in China.<sup>6</sup> It also builds on the long-standing work of AccountAbility in advancing the development of international standards for CSR as well as multi-year studies into Chinese business strategies and practices by DRC-ERI (see Box 1).

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### **Box 1: Research foundations**

This work builds on the foundations of long-standing research by both AccountAbility and DRC-ERI.

#### **CSR in China**

Key foundations were:

- ▶ Advancing Sustainable Competitiveness of China's Transnational Corporations (Guoqiang, Zadek, and Wickerham, 2009, AccountAbility/DRC); the outcome of a two-year research study into the role of voluntary standards in shaping responsible competitiveness strategies in China.
- ▶ AccountAbility's annual survey with Fortune China magazine of business attitudes to corporate responsibility.
- ▶ DRC-ERI's long-standing work on Chinese business "going-out" strategy and advisory recommendations to Chinese government on supporting policies. Referenced by "Internationalization of Chinese Enterprises", Peoples Press. Chen Xiaohong, Chief-Editor, and the DRC-ERI project team.

#### **Collaborative standards**

AccountAbility is the international steward of the AA1000 Series of standards; principles-based standards for helping organisations become more accountable, responsible and sustainable. AccountAbility is also a contributor to other standards such as the Global Reporting Initiative Guidelines and ISO26000. AccountAbility has contributed substantial research on the role of collaborative standards in sustainable development, including:

- ▶ The Logic of Collaborative Governance (Zadek, 2006, Harvard Kennedy School of Government)
- ▶ Investing in Standards for Sustainable Development: The Role of International Development Agencies in Supporting Collaborative Standards (Litovsky, Rochlin, Zadek, and Levy, 2007, AccountAbility)
- ▶ Strategic Challenges for Business in the Use of Corporate Responsibility Codes, Standards, and Frameworks (Zadek, Forstater, Monaghan, 2004, WBCSD/AccountAbility)

#### **Responsible Competitiveness**

AccountAbility's work on Responsible Competitiveness investigates how global and local markets can reward business practices that deliver improved social, environmental and economic outcomes. AccountAbility has worked with a range of partners around the world to assess national Responsible Competitiveness and help to build strategies. See [www.responsiblecompetitiveness.org](http://www.responsiblecompetitiveness.org)



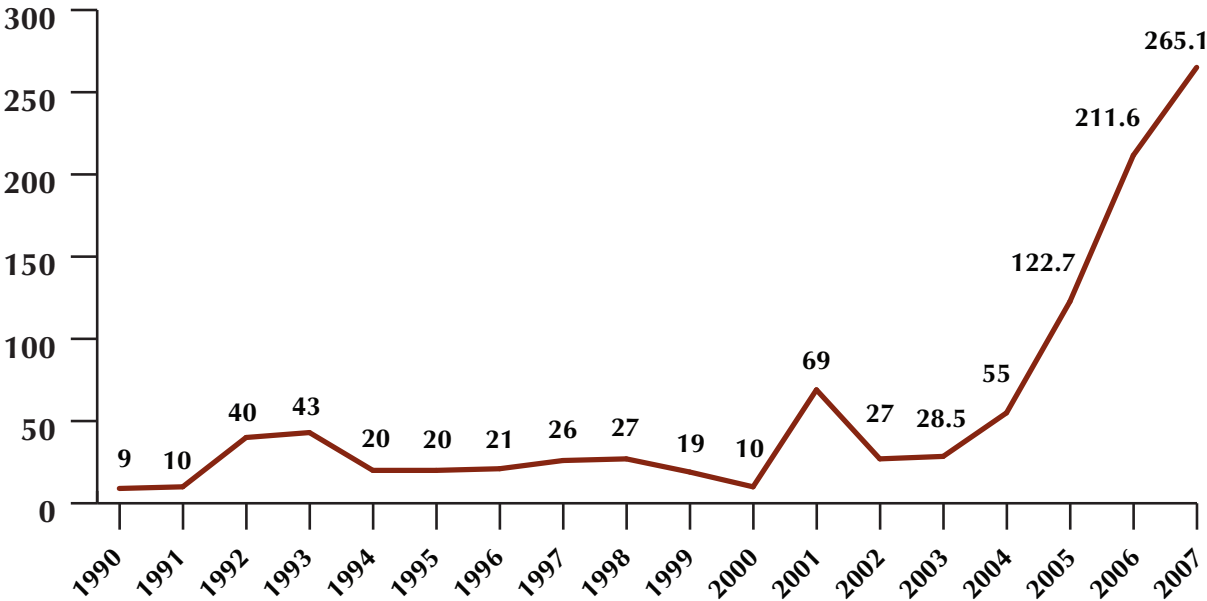
# Chapter 2: Chinese enterprise in Africa

## 2.1 Going out...

Foreign direct investments (FDI) by Chinese businesses have been growing since the early 1990s. These started with small investments abroad, mostly in neighbouring countries and regions. This was due to the fact that Chinese firms were new to the world economy and lacked the competitive advantages, knowledge and experience necessary for global operations.

Building on this start, Chinese foreign investment has rapidly increased, and by the end of 2006, China's non-financial investments totalled US\$73.33 billion spread over more than 160 countries.

Exhibit 1: China's FDI outflow, 1990-2007



[Source: Statistical Bulletin of China's Outward Foreign Direct Investment, 2008, Ministry of Commerce of the P.R.C., National Bureau of Statistics of China, and State Administration of Foreign Exchange]

The foreign expansion strategies of Chinese companies are driven by different aims, broadly categorised as seeking access to markets, resources, innovation or competitive manufacturing bases.<sup>7</sup>

- ▶ **Market-seeking and contract-seeking investments.** With China's domestic markets oversupplied and extremely competitive, the need to find new markets is without a doubt the main motivation for

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Chinese overseas investment. Companies in labour-intensive manufacturing, such as in household appliances, textile and apparel, toys, as well as infrastructure construction are expanding their international operations to seek markets, brand recognition and access to distribution channels abroad. Overseas investment brings further export opportunities for Chinese manufacturers of equipment, pre-assembled parts and building materials.

- ▶ **Resource-seeking investments.** Companies in the natural resource and energy sector, as well as in high energy and resource intensive industries, such as steel and forest product processing, are investing in resource-rich countries in order to secure access to natural resources including petroleum, industrial minerals, timber and fisheries, crucial for continuing to expand production at home.
- ▶ **Innovation-seeking investments.** By buying overseas industries or building overseas research centres, Chinese companies are creating new sources of technology development and improving their own technical capabilities. For activities with strong manufacturing ability and weak research and development (R&D) like IT, machinery, chemicals, and other sectors, the most important goal for international investments is gaining technology and R&D capacity in order to raise domestic manufacturing levels and competitiveness. The most important methods are creating R&D centres in competitive clusters such as Silicon Valley, buying high-tech SMEs, and engaging in joint ventures with more innovative partners.
- ▶ **Efficiency-oriented investments.** Efficiency-seeking foreign investment forms a very low portion of China's total foreign investment. With China's emphasis on low-cost production and the rapid increase in Chinese labour costs, some labour intensive Chinese sectors will inevitably move to countries that simply have lower manufacturing costs. Where these types of investments are taking place is often encouraged by the development of "overseas economic and trade cooperation zones" involving Chinese infrastructure investments and host country policy frameworks to create enabling environments for Chinese SMEs.

In addition to these four core commercial reasons, the Chinese government has also encouraged international investment as part of its own foreign policy, related to the spread of Chinese government aid abroad to develop win-win relationships between China and other countries.

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## 2.2 ...to Africa

Chinese state-owned enterprises have been operating in Africa since the 1950s, however this was largely on the basis of diplomatic relations and government-to-government aid. Since the 1990s, the relationship has evolved onto a more commercial footing, centred on complementary markets for each other's exports; in particular on China's need for oil and natural resources and Africa's demand for infrastructure upgrading.

Chinese companies are increasingly investing in Africa, and the Chinese state-owned enterprises, large corporations and joint ventures have supplanted government agencies as the main vehicles of economic collaboration. More recently these have been supplemented by a growing band of privately-owned companies and SMEs.

Between 2000 and 2005, trade between China and Africa increased from US\$11 billion to almost US\$40 billion with China becoming the third largest trading partner of Africa (although still a long way behind the US and EU). Estimates on the scale of Chinese investments in Africa differ, but it is clear they are growing rapidly. According to MOFCOM statistics, from 2003 to 2007, annual Chinese investment in Africa grew from US\$75 million to US\$1.5 billion.<sup>8</sup> The World Bank estimates that Chinese commitments to finance African infrastructure projects alone, rose from less than US\$1 billion per year in 2001-03 to around US\$1.5 billion per year in 2004-05, and reached at least US\$7 billion in 2006, before dropping back to US\$4.5 billion in 2007.<sup>9</sup> By the end of 2008, more than 2000 Chinese companies had established African branches.<sup>10</sup>

China's investments in Africa are focused on manufacturing, resource extraction for oil, uranium and industrial minerals, and the construction of large-scale infrastructure projects including roads, railways, and dams as well as social projects such as public housing, hospitals and sports stadiums. Chinese entrepreneurs are also visible in domestic consumer commerce, through large-scale Chinese importers and smaller-scale Chinese retail traders. Many of these investments are supported by grants and loans to governments or 'soft loans' to enterprises from China's Exim Bank. In some areas Chinese investments include complex integrated projects on a very large scale (such as combining mining, roads and hydroelectric power). Others are developing special economic zones in joint ventures with African governments.

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Chinese companies have investments distributed across 49 African countries, however the majority are South Africa, Egypt, Sudan, Nigeria, Zambia, Tanzania and Algeria. Infrastructure finance is concentrated in Nigeria, Angola, Sudan, and Ethiopia.<sup>11</sup>

### **Box 2: History of Chinese enterprises in Africa**

The history of Chinese enterprises' business in Africa can be roughly divided into four phases:

#### **Phase I: 1950s to 1970s – Government aid and diplomatic cooperation**

In the 1950s, 60s, and 70s, China provided technical and financial aid to support the development of many newly independent African states. Projects included water engineering and infrastructure, like the construction of the Tanzania Zambia Railway (Tazara).

#### **Phase II: 1980 to 1990 – Continued cooperation and small-scale investment**

Reform of China's economic system was launched in 1978. Against this background, China gradually developed more commercial connections with African countries, starting with small engineering contracts and moving onto joint venture and wholly-owned corporations.

#### **Phase III: 1991 to 2000 – Commercial investment and trade grows**

Within this period, Chinese enterprises were still mainly engaged in businesses that had developed from the history of government cooperation. Investment in the field of resources and general processing replaced trade and engineering services. Some non-state-owned Chinese companies began to launch business ventures in Africa.

#### **Phase IV: Since 2001 – Intensified and diversified commercial investment**

In this phase, business investment played the most significant role, reaching more countries and more sectors, including natural resources, manufacturing, wholesale and retail trade. While state-owned enterprises remain important, particularly in the resource extraction and construction sectors, non-state enterprises began to outnumber state enterprises. Nevertheless, many privately-owned companies are subcontractors to larger state enterprises in the telecom, engineering and energy businesses.

The 22 enterprises taking part in this study entered Africa spanning the different phases, from CCECC, whose predecessor was the financial aid office of the Ministry of Railways and who was responsible for the construction of the Tanzanian Railway in the 1960s, to those launching businesses in Africa more recently.

While Chinese investment in Africa is growing rapidly, Africa remains a relatively minor destination for Chinese FDI (most of which still goes to Asia) with 6% going to Africa in 2007. China is still a relatively small player in Africa's natural resource and petroleum sector relative to the OECD countries. However in the key countries where it exports from, such as Sudan and Angola it is a major player. China is also an increasingly major player in infrastructure, where the scale of Chinese infrastructure projects,

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financed on concessional terms through China's Exim Bank is now worth more than the developed countries' total infrastructure aid to the continent.<sup>12</sup> Chinese investment in Africa's transport, communications and energy infrastructure is therefore making a strategic impact on Africa's competitive landscape.

Certainly the role of Chinese business in Africa has captured the imagination of African leaders and youth. China's emergence from poverty to become an economic powerhouse is offered as an inspirational example. China has been welcomed by many African governments as a new investor, a model for development and an ally in a world where there is growing unease over what African governments perceive to be the patronising attitudes of the West. For example, president of the African Development Bank, Donald Kaberuka has remarked: *'We can learn from them [China] how to organise our trade policy, to move from low to middle-income status, to educate our children in skills and areas that pay-off in just a couple of years.'*<sup>13</sup>

However not all the responses to Chinese investment in Africa have been so positive. Civil society organisations – as well as some governments – are beginning to ask critical questions about the impacts of Chinese business operations in Africa, and these have also been picked up by the Western media, academic studies and even popular books.<sup>14</sup> The questions and criticisms mainly concern the impact of Chinese companies' competitiveness on African businesses, and some CSR issues with Chinese companies, demonstrated as follows:

- ▶ **Impacts on local economies.** Concern that Chinese manufactured goods, and traders are displacing small, and even relatively larger domestic producers and retailers and a perception that local enterprises are disadvantaged in relation to (direct and indirect) subsidies that Chinese industries receive from "investors and often Chinese government entities."<sup>15</sup>
- ▶ **Impact on local environments and communities.** Concern that Chinese enterprises are not giving sufficient attention to health and safety standards, workers rights, and environmental standards, and that their operations are therefore having an adverse impact on local communities and ecosystems.<sup>16</sup>

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- ▶ **Impacts on local employment.** Concern that projects are relying on imported Chinese workers, and therefore do not create much local employment or build local production and management skills.<sup>17</sup>
  - ▶ **Impacts on economic growth potential from natural resources.** The history of natural resource extraction in Africa has a poor track record characterised by environmental degradation and increased poverty. There are concerns that Chinese enterprises are repeating the patterns of outside investment in Africa, by extracting natural resources with little local processing and with highly destructive effects, and that they are providing revenue flows which support corrupt and abusive regimes.
  - ▶ **Relationship with international efforts to improve governance.** A key concern is that China and Chinese businesses are not involved in international efforts to improve governance and transparency of oil revenues. China's non-involvement policy keeps Chinese businesses away from "intervening in African countries' internal affairs" and therefore, they are less willing to address issues such as corruption, transparency, and human rights.

### 2.3 Introduction to the enterprises included in the study

This study explores the experiences of 22 Chinese enterprises. Most of these are large corporations, the majority involved in resources extraction, engineering and the manufacture of mechanical and electrical equipment. Three enterprises have set-up in the business of operating in industrial zones to promote the development of Chinese manufacturing companies in Africa. Exhibit 2 provides a summary of these enterprises, and more details are given in Annex 1, downloadable from [here](#).

They span the broad range of Chinese enterprises operating in Africa including larger and smaller companies, state-owned and non-state-owned companies with operations in many different countries in Africa. Some are large companies such as CNPC whose African operations are part of their global vision to become a truly multinational company, while others like privately-owned Pan-Pacific Mining, Hanrui Cobalt and Xinguang Group, have only started their foreign expansion in recent years and are treating investment and growth in Africa as their starting point. In general the state-owned enterprises tend to be larger and have more international operations, while the private firms tend to be smaller, and many are located only in China and a few African countries.

## Exhibit 2: Summary of enterprises investigated

Scale (annual turnover RMB)		Sector		Ownership	
> 50 billion	8	Natural resource extraction, refining & processing	7	State-owned	13
5 billion – 50 billion	5	Engineering, construction	8	Privately-owned	7
1 billion – 5 billion	4	Economic zone development	1	Joint venture	1
100 million – 1 billion	5	Electrical manufacturing	4	Diversified Ownership	1
Less than 100 million	0	Other manufacturing	2		

Phase of first investment in Africa	Geographic spread in Africa	African operations as a proportion of overall business
Before 1980: 2 1980~1990: 3 1991~2000: 10 Since 2001: 15	1 country: 6 2-3 countries: 4 4 + countries: 12	Less than 20%: 5 20-50%: 6 More than 50%: 11

**Notes about ownership:** SOE (State-Owned Enterprise) refers to enterprises which are invested by state assets or the state takes more than 50% share, including state-wholly-owned companies, or listed companies with more than 50% share owned by the state. “Private companies” refer to enterprises mainly owned or invested by individuals or individual companies. “Joint Venture” refers to companies jointly invested by Chinese and foreign parties, e.g. CCECC-Beyond. “Diversified ownership” means different ownership elements in a company while the state doesn’t take the holding position, e.g. ZTE Corporation.

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# Chapter 3: Corporate social responsibility

## 3.1 Introduction to CSR

Corporate social responsibility (CSR) is the idea that enterprises can and should take responsibility for their impacts on society and environment as they pursue profits.

The concept has been variously defined (see Box 3), and is also used interchangeably with terms such as ‘corporate citizenship’, ‘business in society’ and ‘business and sustainable development’. Each has a slightly different flavour and history, but ‘CSR’ is used throughout this report, since it is the term that has gained the most currency in China.

All around the world local approaches to CSR is developing with their own histories and local characteristics (see Box 4). They are being driven by the particular challenges of economic development, health, social change, ethics and environmental protection in different countries, and by the common drivers of global competition, deregulation, privatisation and the increasing openness made possible by the growth of the internet and of civil society.

### Box 3: Defining CSR

*“Fulfilling social responsibility ... requires central enterprises to be human-oriented, stick to scientific development, be responsible to stakeholders and environment, so as to achieve the harmony between enterprises’ growth, society and environment.”*

China State-Owned Assets Supervision and Administration Commission

*“The responsibility of a company for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to the sustainable development, health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law; is consistent with international norms of behaviour; and is integrated throughout the company.”*

Draft ISO26000 guidelines

*“The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”*

World Business Council for Sustainable Development



#### Box 4: Development of CSR around the world<sup>18</sup>

- ▶ Companies in the Arab World have traditionally considered their philanthropic donations as their main social responsibility, but are now recognising the benefits of embedding responsible practices in their core strategies. Corporate governance, particularly as family-firms go public and companies look to access international markets, and environmental protection, are emerging as the two CSR priorities for the region.<sup>19</sup>
- ▶ Cambodia is seeking to enhance its competitiveness in the garment and textiles sector by advancing improved labour standards as a distinct competitive advantage in what is otherwise relatively commoditised markets.
- ▶ The EU has sought to promote CSR but it has developed in different countries, in different ways. In France there is a tendency towards formal procedures and frameworks for risk avoidance. In Germany CSR has been driven by a strong civil environmental movement and by stakeholder involvement enshrined in corporations' governance. In the UK's less regulated environment, CSR grew out of a history of philanthropy and social responsibility by Quaker companies and the Co-operative movement and from active civil society campaigning and business collaboration on social and environmental issues.
- ▶ In India the tradition of business involvement in social issues is reflected in philanthropy driven by local commitment and religious affiliation as well as the business necessity of ensuring local infrastructure and educational and health facilities. CSR approaches are now moving away from philanthropy towards measuring, managing and improving all aspects of companies' environmental, social and economic impact. This trend is embodied in formalised codes of conduct and guidelines that are increasingly becoming part of the terms of business for companies that trade internationally.
- ▶ In Japan, the roots of CSR are traditions of Japanese business, such as *shobaido* (the way of doing business) and *shonindo* (the way of the merchant), and Japanese firms pay a lot of attention to the environment and to relations with local communities. Firms in this densely populated and early adopting economy have led the way in green-technology innovation.
- ▶ In some parts of Latin America such as Brazil, Mexico and Chile there is a strong emerging CSR movement, facilitated by business groups such as Empresa and Instituto Ethos.
- ▶ In South Africa CSR and black-economic empowerment are critical parts of the country's efforts to ensure that its businesses not only thrive but contribute to broader social development. Stakeholder dialogue, partnership, and transparency are key elements of the South African approach.
- ▶ In the US CSR has traditionally been equated with philanthropy. At the same time there has been strong attention to improving due diligence in corporate ethics. There is less focus on 'CSR' as encompassing broad stakeholder engagement, transparency and reputation, but more on pursuing environmental efficiency when it enables cost savings to the bottom-line.

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### 3.2 History lessons

Despite the widespread development and the crisp definitions of CSR, the reality is that the scope of corporate responsibilities is not clearly defined. The history of CSR in every country has been marked by alternate periods of complacency, conflict and confusion over the role that businesses should play in addressing emerging social, environmental and ethical issues.

Indeed a short look at some examples from the history of CSR by Western multinationals, highlights that far from being a smooth progression of strengthening 'best practice', many advances have been achieved as the result of hard won lessons, and learning from mistakes. Time and time again companies have found themselves the subject of civil society campaigns, media exposés and government censure, despite their firm belief that they had been acting in line with the law, and what's more they had been contributing to society through their core business and their philanthropic activities. Time and time again businesses and their stakeholders have become frustrated with limited approaches to CSR, which have proved unable to address the systemic social and environmental issues which are critical to businesses long-term success. Time and time again solutions have emerged from company's interactions with non-traditional sources of knowledge, such as social activists.

Examples of companies caught unaware by CSR controversies abound. In the 1990s, the oil company BP faced accusations that it was complicit in human rights abuses related to its oilfields in Colombia due to action by the Colombian Defence Ministry and National Police in defending their operations. The clothing companies Gap and Nike also found themselves at the centre of consumer and NGO campaigns in the late 90s concerning the working conditions and welfare of workers in their global supply chains.

The reactions of these companies illustrate the common pathway of development of CSR. At first they argued that these issues were outside of their sphere of influence. BP argued that the action of the Colombian Government was not their responsibility, while Nike and Gap argued that workers were not directly employed by their company, so not subject to the same standards on working conditions. Similarly companies in the energy sector denied responsibility for greenhouse gas emissions associated with their products; food companies argued that obesity was not their problem; while the diamond giant De Beers denied that diamonds fuelling conflict in Liberia and Angola could have anything to do with their own, clean, diamond supplies.

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But eventually each of these companies and sectors recognised that their corporate reputation and the formal and informal 'license to operate' which depended on government, investor and community confidence, could not be insulated from these charges and they each began to pursue a journey of learning, leadership, management system development and external transparency to address these issues.<sup>20</sup>

In Colombia BP worked with independent local NGOs to investigate local political realities and the situation of the poor and powerless of the region. They changed their policy on engagement with the government security forces, making their agreement subject to public transparency, audit and debate and also organised a programme raising awareness with staff to ensure they are able to recognise human rights dilemmas and know what course of action to take to resolve them. While BP developed internal systems to audit compliance of their private security with a code of conduct, they have also recognised the need to support broader implementation by other companies and by governments. In 2000 BP became founding members of the 'Voluntary Principles on Security and Human Rights', an international initiative to provide rules of engagement on security in the Oil and Gas industry, and in Colombia they are working to encourage government initiatives to strengthen the judiciary and the rule of law.

In the case of Gap and Nike, they too began to recognise responsibilities outside of their direct legal liabilities and drew up codes of conduct to address the issue of 'sweatshop labour' which was damaging their brands. Over the years these companies and others in their sector have developed systems for auditing and certifying supply chain labour standards. However despite genuine (and costly) efforts in this area, the apparel industry has never been able to declare itself 'sweatshop free' and incidences of child labour, poverty wages and human rights abuse continue to surface, evading the control systems put in place. Many outsiders took this as proof of a lack of real commitment, while those inside were frustrated by their failure to move past this ongoing crisis. Nike's investigations concluded that the root of the problem was not so much the quality of the company's control systems but their approach to doing business. Incentive structures meant that buyers were encouraged to circumvent code compliance to hit targets and secure bonuses. Nike realised that it had to manage corporate responsibility as a core part of the business. However doing this meant going beyond re-engineering procurement incentives, it had to get both its competitors and suppliers involved to address the competitive pressures in the industry. They have collaborated to develop multi-stakeholder initiatives such as the Global Alliance for Workers and Communities and the MFA Forum which bring together buyers and suppliers, trades unions,

NGOs and governments to transform the industry towards responsible competitiveness which combines efficiency, financial viability and good jobs.<sup>21</sup>

These experiences illustrate the key stages of organisational learning that have often accompanied CSR developments.

**Exhibit 3: CSR learning stages**

Stage	What organisations do	Why they do it
<b>DEFENSIVE</b>	Deny practices, outcomes, or responsibilities	To defend against attacks to their reputation that in the short-term could affect sales, recruitment, productivity and the brand.
<b>COMPLIANCE</b>	Adopt a policy-based compliance approach as a cost of doing business	To address medium-term reputation and litigation risks.
<b>MANAGERIAL</b>	Embed the societal issue in their core management processes	To achieve longer-term gains by integrating responsible business practices into their daily operations.
<b>STRATEGIC</b>	Integrate the societal issue into their core business strategies	To gain a competitive edge by innovating products and processes to align with emerging societal concerns.
<b>CIVIL</b>	Promote broad industry participation in corporate responsibility	To enhance long-term economic value by overcoming obstacles to action.

These individual experiences are also reflected in the broader debates around the role of business and the terms of corporate responsibility. Much of this has focused on the question of whether a company operating in a zone of conflict or under an oppressive government can ever be a neutral player. The experience of many companies has been that the need to protect and defend facilities and operations leads to interactions with security forces and armed groups that are party to the conflict or repression. Therefore companies cannot avoid contributing to the dynamics of local conflict.

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In 1997 the World Business Council for Sustainable Development (WBCSD), working together with a team from Shell developed a series of 'Global Scenarios' exploring the role of business in sustainable development. These set out the perspectives of a group of TNCs on the conflicts and dilemmas between economic growth, environmental sustainability and human development. They concluded that the 'FROG' scenario ('first raise our growth') would be ultimately unsustainable as it results in insufficient response to environmental, social and governance issues, undermining the basis for long-term economic sustainability. Instead they foresaw transnational issues being addressed through ad hoc alliances between business, governments and civil society and by strengthened global institutions.<sup>22</sup> These debates are still playing out, with elements of these scenarios clearly visible in developments such as the UN Global Compact, and the engagement of business around debates on climate change. Economic research into the link between economic stagnation, conflict and poor governance has also brought the 'first raise our growth' arguments back to the forefront, particularly for the least developed countries.<sup>23</sup>

These experiences and debates highlight a number of key lessons:

- ▶ **CSR goes beyond compliance with the law, and concerns the ability of a company to identify and respond to environmental, social and governance (ESG) issues that may prove material to the company's long-term performance.** Such ESG risks include productivity constraints (such as lack of skills and education or poor local infrastructure); operating risks (such as security or health and safety risks); reputation risks; environmental risks (such as environmental regulations and emerging environmental issues related to products and processes) and social risks (such as the need to gain local acceptance by demonstrating community benefit, and addressing corruption).
- ▶ **It is impossible to draw up a definitive list of issues and policies which constitute CSR.** It is best viewed not as a standalone concept or standard of performance, but as a critical consideration in many of the factors which drive competitiveness, such as investment, employment culture and productivity, talent management, innovation and reputation. These will be different for different companies and can shift over time as changes in risk and regulation, challenges to reputation and developments in best practice redefine the boundaries of what is acceptable, possible and profitable for a company to do.<sup>24</sup>

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- ▶ **Stakeholder engagement, learning and internal knowledge networks are crucial.** CSR management depends on a combination of ‘soft’ approaches such as leadership, corporate culture, knowledge networks, relationships and stakeholder engagement and ‘hard’ approaches based on policies, commitments, performance measurement and incentives. Companies that use dialogue and collaboration with stakeholders as a basis for learning about issues, are able to strengthen the ‘hard’ systems they use for managing performance.
  - ▶ **Strategic approaches are needed to deal with strategic challenges.** When social, environmental and governance challenges are threatening the competitiveness of a business, sector or region, neither philanthropy nor compliance with sometimes weak local laws, nor third party audits are enough to identify and mobilise an adequate response to material issues. For CSR to make a real difference to corporate performance it needs to be aligned to business strategy, and often to collaborative sector-wide action. Increasingly businesses are therefore working together with governments and other partners to overcome the barriers which prevent individual companies significantly impacting on the social and environmental challenges they face.
  - ▶ **Business leadership in voluntary sustainability standards drives sector wide improvements.** These standards, often developed and stewarded by business with civil society, labour organisations and the state, provide a valuable route for accelerating learning, engagement and best practice and evolving from situations of opposition between stakeholders, towards collaborative problem solving (see Box 5). Companies have learnt that they do not just have to wait for regulation, or comply with voluntary standards and evolving expectations of business, but can help shape these developments through engagement in collaborative initiatives. High-level leadership buy-in from a few companies can make a huge difference in driving sector-wide performance improvement through peer-to-peer learning and support.

### **Box 5: Standards and norms for CSR**

Voluntary standards have emerged as a solution to the need for clear norms to guide corporate behaviour on social, environmental and ethical issues. Due to the cost and clumsiness of statutory mechanisms, the difficulty of setting and enforcing laws on cross-border issues and the considerable asymmetries of power between global businesses and local communities and even governments, such 'voluntary standards', have become a core process through which norms of corporate social responsibility are advanced.<sup>25</sup>

There are hundreds of collaborative standards initiatives, at global, regional and national levels covering everything from internet privacy to human rights abuses committed by security forces guarding extractive industry sites, to anti-corruption initiatives to agricultural practices. Key examples include:

- ▶ The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption.
- ▶ The Global Reporting Initiative (GRI) provides guidelines for corporate reporting on sustainable development issues.
- ▶ The OECD Guidelines for Multinational Enterprises have been developed as an international, intergovernmentally agreed norm on responsible business practice. Forty countries, including both OECD members and non-members have committed to promoting the guidelines.
- ▶ The Greenhouse Gas Protocol developed by the WBCSD and World Resources Institute (WRI) provides a framework for companies to measure and report on their greenhouse gas emissions.
- ▶ The AA1000 provides a standard for assuring corporate performance and disclosures.
- ▶ ISO 26000 guidelines are being developed to provide a standard on CSR within the ISO system.
- ▶ The Equator Principles, on project finance, stewarded by the International Finance Corporation (IFC), are a set of voluntary principles for project finance.
- ▶ The Forestry Standards of the Forest Stewardship Council (FSC) are just one of a number of standards that aim to secure sustainable forestry supply chains.
- ▶ The Voluntary Principles on Security and Human Rights which cover behaviour for security forces guarding extractive and energy sites.
- ▶ SA8000, the FLA and ETI, and other multi-sector codes of conduct initiatives in the apparel sector.
- ▶ The Construction Sector Transparency Initiative is developing country pilots in order to develop systems for release of information on government construction projects. The ultimate goal is to increase transparency across the sector.

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While collaborative standards have certainly helped to advance the practice of corporate responsibility, and broken unproductive stalemates between businesses and their critics, they are also in danger of becoming barriers to entry for emerging business communities and nations. To date they have been largely driven by the priorities of western companies, NGOs, and governments. As a consequence such standards are set in a way that makes it difficult to operate in high-risk countries, and tips the balance of competitive advantage away from low-cost producers, despite the urgent need for trade and economic development to enable upgrading in these countries.

Nevertheless, emerging economy companies are increasingly gaining knowledge and overcoming suspicion about these voluntary mechanisms and the organisations behind them. For example, Bolivia offers key lessons with its twelve years of using the Forest Stewardship Council standard to enforce its mandatory legal forest management, motivated by robust and credible verification, access to new markets and reputational gains. South Georgia uses the Marine Stewardship Council standard to certify the sustainability of its fish products. Increasingly, some emerging economy companies are becoming players in the design of new sustainability standards, notably in the case of the ISO 26000 standard, but also in the field of sustainability reporting and assurance through their engagement in the development and promotion of the GRI's G3 Sustainability Reporting Guidelines and AccountAbility's AA1000 Assurance Standard.<sup>26</sup>

### **3.3 CSR in China**

As in other countries, CSR in China is developing with a specific local flavour, informed by traditional culture and values as well the particular history and competitive drivers for Chinese enterprises.

CSR has a long history in China. Some trace its roots back to the founding of the People's Republic in 1949 and the aim of harmoniously managing production, livelihoods, welfare and education through state managed enterprise and organised society. China's major state-owned enterprises therefore grew up with broad responsibilities for social welfare of current and past employees and their families, running schools, hospitals, utilities and many other community services.

In recent years with emerging market economy development, companies have focused on becoming more competitive and operating on more commercial terms with their stakeholders. Thus developing a new approach to CSR has had to be done at the same time as tackling labour system reform and



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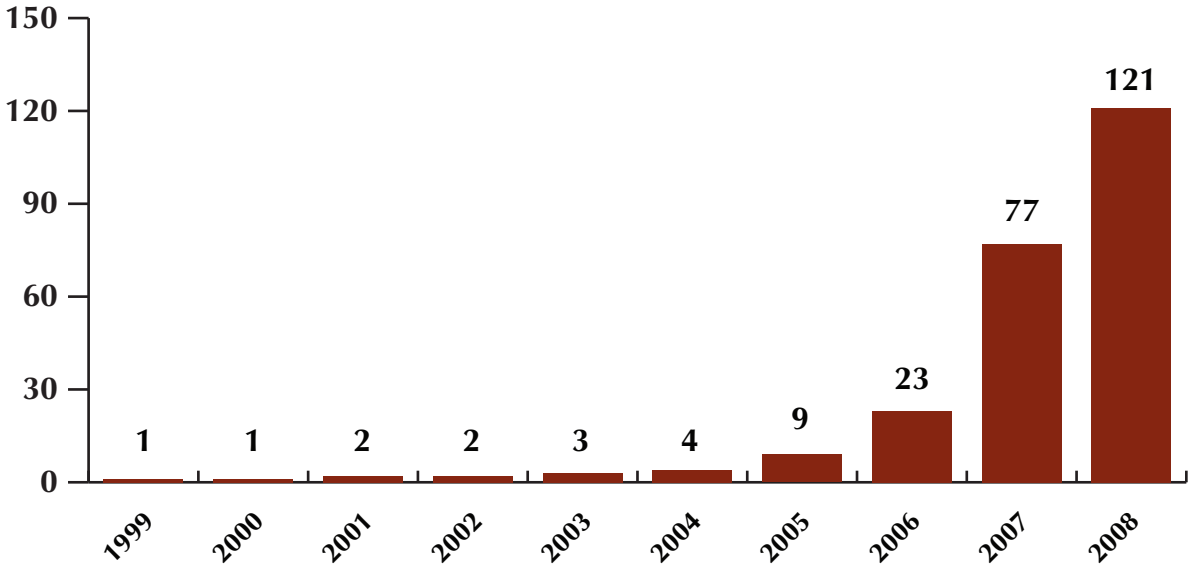
developing a new ‘social contract’ between business and society. The recent strategy of ‘going out’ has brought Chinese companies into the international spotlight and exposed them to broader expectations of corporate responsibility by local communities and consumers in their host countries.

It is now recognised that poor business practices and an overall low performance in responsible competitiveness will become a hindrance to China’s strategy to produce sophisticated products and establish a first generation of multinationals with global markets and brands. Serious moves are therefore being made by the Chinese government and leading businesses to advance responsible business practices at home and internationally. Research, for example, by OECD, Zhang Xianchu and SYNTAO, as well as Fortune China Magazine’s annual survey of Chinese business perceptions of CSR (designed by AccountAbility) confirm that CSR is becoming an increasingly prominent and accepted part of the corporate strategy agenda in China.<sup>27</sup>

Important developments include:

- ▶ **Increasing government attention on CSR.** On January 2008, the state-owned Assets Supervision and Administration Commission of the State Council issued specific Guidance on CSR for state-owned enterprises, including an obligation for all state-owned enterprises to release CSR reports. President Hu Jintao, speaking to CEOs at the APEC summit in Peru in November 2008, highlighted the central importance of CSR, saying that: *“enterprises should establish the concept of global responsibility, include social responsibility in their business strategy on their own, abide by the laws in the country where the enterprises operate and international common business practices, improve their management models, and pursue unity of economic returns and social results.”*
- ▶ **Increase in CSR reporting.** In 2008, from January to November, 121 enterprises released CSR reports. This number was significantly increased compared to the past, reflecting the new government guidance on CSR for state-owned enterprises. Among the 121 reporting enterprises, over 50% were state-owned, but reports by privately-owned enterprises are also increasing.

**Exhibit 4: Chinese companies issuing CSR or sustainability reports**



[Source: Data from Journey to Discover Values 2008: Study of Sustainability Reporting in China, SYNTAO, December 2008. 2008 data does not include the figures for December.]

- ▶ **Increasing media attention on CSR.** Several awards and ratings have been launched such as the WTO Tribune’s “Golden Bee” Honor Roll, and the China Entrepreneur Club’s “Green Companies” Awards. Systems such as Pudong’s pilot Responsible Competitiveness Index have also received media attention.
- ▶ **Adoption of international standards, and involvement in international collaborations.** While Chinese companies have been wary of joining or adopting many of the multi-sector collaborations and standards on CSR, there has been increasing adoption of process based standards such as the GRI Sustainability Reporting Guidelines, and ISO environmental management system standards. According to OECD statistics by 2003, 5,064 Chinese enterprises had been certified by ISO 14001. This number is remarkably higher than other new-emerging countries, such as Brazil (1,008), India (879), South Africa (378), and Russia (48). In addition, by 2008, nearly 200 Chinese companies had joined the UN Global Compact, accepting its ten principles on sustainability, and making it one of the top six countries in terms of participation. Other global initiatives such as the World Business Council on Sustainable Development, the Cement Sustainability Initiative, and the International Council on Mining and Metals have also begun to create links with Chinese businesses.

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■ **Establishment of CSR training and skills development programmes.** Since CSR is still new to many in China, the demand for ongoing training continues to rise. Training courses are already being conducted by institutes such as the International Labour Organisation (ILO), German, Swiss and Swedish technical cooperation agencies, and the World Wide Fund for Nature (WWF). The majority of these are awareness raising or technically focused, and generally targeted.

These signs of progress reflect a growing consensus in China that integrating social and environmental considerations into corporate strategy can help to deliver improved long-term business performance.

It is notable that the SASAC Guidance on CSR for state-owned enterprises sees CSR from a strategic perspective, driven by a national quest for responsible competitiveness. It presents CSR as the way for enterprises to contribute to China's national development goals, recognising the importance of enterprises to development, through provision of infrastructure and contribution to economic growth, and highlighting the role for CSR in strengthening competitiveness by enabling innovation, improving reputation, and enhancing employee productivity and engagement. It also recognises the need to meet international expectations and build the reputation of Chinese businesses.<sup>28</sup>

Therefore it is not surprising that AccountAbility's survey of Chinese businesses with Fortune Magazine found that a growing number of businesses agree that "CSR is a trend that is here to stay in China," (56% in 2009 compared to 49% in 2008) while 81% agree that social and environmental responsibility can contribute positively to long-term business performance. They define corporate responsibility in terms of core practices of the business, such as producing high quality products and services (91%), protecting the environment and saving resources (91%) and acting with integrity by observing business ethics (89%). Three quarters of respondents say CSR also means fulfilling obligations toward employee's personal and professional growth (77%), providing good working conditions (75%), and minimising the negative impact that core products have on the environment and society (72%). They think, although to a lesser degree, that CSR should entail reducing carbon emissions (68%). A clear message from this year's CSR survey is that decision makers in China have come to view CSR more strategically. Two years ago only 36% of respondents saw integrating social impact considerations into corporate strategy as one of their companies' highest priorities. Now 75% said implementing this kind of responsible competitiveness strategy is a top priority.<sup>29</sup>

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However, Chinese businesses face a particular set of challenges in managing ESG issues:

- ▶ Firstly, all businesses face challenges in working cross-culturally and in places where governance is weak, and Chinese businesses as latecomers to global expansion are often pursuing opportunities in the riskiest business environments.
- ▶ Secondly, Chinese businesses are in the main, in their first generation of 'going out' whereas many western multinationals have been working globally for a century or more.
- ▶ Finally, China's reform and opening-up is a gradual process therefore Chinese businesses are lacking international experience in working with civil society organisations, while their participation in voluntary standards and collaborative initiatives is just beginning.

### **3.4 CSR issues for companies operating in Africa**

After many years of economic stagnation, the past decade has seen a long-awaited economic renaissance in Africa. Between 2001 and 2008, average annual growth in GDP was over 5%, largely driven by rising demand for natural resource exports and increased attraction of foreign direct investments. Nevertheless, the development challenges faced by the region are enormous. Half of the continent's population of 840 million people live on less than US\$1 per day, while 32 of the world's 38 highly indebted poor countries are in Africa.

African countries are generally seen as challenging, although improving, business environments to operate in and are drawing cautious investor interest, in particular attracted by the wealth of natural resources in Africa. According to the World Bank, World Economic Forum and African Development Fund's joint competitiveness review, recent years have seen significant progress in opening markets, improving business regulation, strengthening education and in the functioning of labour markets. However infrastructure, macroeconomic stability, and the health situation, government inefficiency, physical security, and corruption remain key issues.<sup>30</sup>

Leading businesses concerned with business and CSR in Africa emphasise that accelerating and sustaining growth is the most important and sustainable way to reduce poverty and that the greatest impact that businesses can have is through doing good business: paying taxes; involving and supporting

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small enterprises in value chains; generating employment opportunities; producing goods and services that meet the needs of low-income consumers; and training and capacity building.<sup>31</sup>

At the same time as seeing opportunities for economic and social development in Africa, companies must also address the ESG risk, and obstacles to development, that they face. A history of vulnerable states and civil conflict has helped to contribute to a cycle of under-development and poverty, despite (and perhaps because of) abundant natural resources.

Despite recent progress in governance in a number of African countries, corruption remains one of the biggest challenges throughout the continent. Public services are unevenly provided and of poor quality, and civil servants are often so badly paid that they resort to corruption in order to survive. However, media and civil society is becoming increasingly active and outspoken concerning governance issues and corruption.<sup>32</sup>

The ESG issues material to businesses vary from sector to sector, but concerns are particularly focused on oil, mining and other natural resource exploitation as well as on large infrastructure developments, because of the potential for these industries to have large damaging impacts on local communities and environment, while benefits are captured through corruption by governing elites, or used to fuel conflict. Industries exposed to civil conflict, sabotage, extortion and kidnapping face costs for security provision, higher insurance premiums and reputational damage, while the use of armed guards, private security firms or state security can also bring its own risks.<sup>33</sup> Hydroelectric power projects contribute to the destruction of freshwater ecosystems and species extinction. Furthermore, the World Commission on Dams found that the communities affected by dams often do not share in the projects' benefits.<sup>34</sup>

The construction sector plays a vital role in supporting social and economic development, but it is consistently ranked – in both the developed and developing world – as one of the most corrupt areas of economic activity. The costs of corruption in construction projects extend far beyond increasing public costs. Corruption can hinder social and economic development by undermining the rule of law and hindering the growth of strong and accountable institutions, on which sustained economic growth depends.<sup>35</sup>

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## Chapter 4: Exploring Chinese business leaders' perspectives of responsible business in Africa

This section reflects, in particular, on the findings from senior managers within 22 Chinese companies operating in China.

### 4.1 Strategies for expansion in Africa

The overseas expansion strategies of Chinese companies have been identified as being driven by: resource-seeking, market-seeking, technological upgrading and production efficiency, as well as by national geo-political priorities. Discussions with business leaders within the firms participating in the study explored more specifically the strategies of firms expanding into Africa:

- ▶ **Resource-seeking:** the procurement of secure oil supplies are a principal national interest and form a fundamental part of China's foreign policy. China Petroleum came to develop in Africa in the 1990's and by the end, had set up 25 oil and gas cooperative projects in Sudan, Algeria, Tunisia, Libya, Chad, Niger, Nigeria, Mauritania and Equatorial Guinea, making Africa the largest oil and gas cooperative region for China Petroleum. Oil makes up the largest and growing proportion of imports to China from sub-Saharan Africa.
- ▶ **Market-seeking and in particular, contract-seeking:** African consumer markets, rapidly growing, highly price conscious and often still underserved by other multinationals present a proving ground for smaller Chinese businesses seeking to expand multinationally. Consumers in Africa are able to afford the kinds of products that Chinese companies can produce, and Chinese companies are able to provide. ZTE Corporation and Huawei have entered the African telecommunications industry, extending their existing base in equipment manufacturing to bidding for telecoms operations in Nigeria, Angola, Ethiopia and other African countries.

Often businesses benefit from 'coalition investment' strategies across various sectors which combine resource-seeking and market-seeking opportunities to unlock new markets. China's increasing activities in the telecommunications and energy sectors for example, has facilitated the entry of Chinese construction companies into African markets due to the need for supportive infrastructure for these sectors. These construction firms have since expanded into housing and civil engineering projects.

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Investments in transport infrastructure enables wider market distribution of Chinese made goods, and transport of natural resources. In some cases these coalition strategies have been combined into more formal combinations for example, the 'Angola model' of oil-backed loans for infrastructure development, or in special economic zones which combine Chinese infrastructure and small business investment with local policy commitments to create enabling business environments. However Chinese firms are not limited to these combined approaches, and in particular Chinese infrastructure contractors have become highly competitive players in the sector, as of 2008 winning more World Bank financed procurement contracts in Africa than contractors from any other nationality.

In some cases the business strategies of state-owned enterprises make most sense in the context of the wider development of Chinese business interests. For example CCECC-BEYOND is a joint venture between a number of Chinese enterprises and the Nigerian Government. It has been developed to establish the Lekki Free-Trade Zone. The drivers for development of the Free-Trade Zone are to diversify the origin of products of Chinese companies and reduce trade conflicts, transfer surplus domestic capacity from China to help to establish a local industrial system in Nigeria, and to reduce the concentration of Chinese investments on resources in Nigeria to respond to criticism from the West.

#### **4.2 Competitive strengths**

Many business leaders stressed the Chinese efficiency difference as the key factor in enabling their companies to win contracts and markets. They stated that Chinese companies are well adapted to compete in African markets, noting that China provides low-cost technology and its workforce are willing to work in inhospitable places. As a senior manager in a construction firm noted: *"The advantage of China's foreign-related projects are firstly that our building materials reach the level of quality of European and American developments, but the price is one-third. Secondly, the level of Chinese construction workers is higher: the construction quality is guaranteed. Chinese workers are willing to work overtime, we have good management, quick speed and high efficiency. We maintain an ordinary mind and do not consider it is very hard to work in Africa. It is just ordinary work."*

Indeed while business leaders highlighted the difficulties and risks of operating in Africa, they also noted that it is in environments of most difficulty where Chinese companies have the highest competitive advantage over more established international competitors. As a representative from China Petroleum noted: *"When we built a pipeline in Sudan, there were very tough transportation conditions, and the*

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*weather in Africa was very hot. It would have taken three years for Western companies to build the pipeline. While China Petroleum overcame the tough conditions and worked in the high temperatures to finish the pipeline within 10 months. We created a miracle in the world.”* Similarly an executive from ZTE Corporation said: *“It is difficult to live in Africa, so other countries are not willing to enter. This is mainly reflected by sanitation conditions, diseases, chaos caused by conflict and the low costs required. With low cost and high quality, ZTE Corporation became a disruptive commercial model”.*

Chinese companies, and groups of companies are also able to offer end-to-end solutions combining transportation infrastructure, energy generation, and natural resource extraction and refining, again giving them a competitive advantage in the most difficult of operating environments. This is aided by Chinese companies’ access to low-cost and long-term capital. State-owned companies work closely with China’s Exim Bank and secure concessional loans which are part of China’s development aid. This has significant implications for companies’ overhead costs and their ability to invest for the long-term, as one business leader noted: *“Western companies hope to get back their cost in a rather short time.”* Some researchers have found that while local and foreign construction companies operate on profit margins of 15-25%, Chinese companies have margins of under 10%. There have been reports of a large Chinese state-owned enterprise cutting margins to as low as 3%.<sup>36</sup>

Almost all the business executives stressed the Chinese way of working, where staff including managers, technicians and labourers live and work on the site and share basic living conditions. This saves time and costs and enables managers to rapidly respond to challenges as they occur. However, some reflected that as China’s economic development advances, the cost and difficulty of attracting Chinese workers to Africa will also increase. They stressed the importance of local employment generation, but also the challenges of employing and training staff in regions of low education provision. As one executive related: *“Cultural conflicts were large at the early stage in Africa. For example, Africans did not accept overtime at the very beginning. We initiated Family Day, Cultural Day and other events to introduce the Chinese culture to local staff and to ensure that Chinese employees are aware of local culture. Africans now are able to integrate into our corporate culture, including overtime, training, promotion and incentives.”* While almost all the companies stressed their record of local employment, this contrasts with the widespread perception that Chinese companies rely on Chinese labour and do not offer many opportunities for local staff advancement.<sup>37</sup>



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Many of the business leaders see China's unconditional policy in its international aid and project finance as a key strength: *"We sincerely help the resources countries without any additional conditions. Some western companies always come to the resources countries with additional conditions of policy, culture, military and economy, while we have never thought about such conditions."* This was linked to the idea of developing a culture of mutual respect between Chinese companies and their African workforce, local communities and government hosts. Many executives expressed the belief that Chinese businesses are able to operate on a different basis than other multinationals in Africa, based on the principle of *"mutual benefit and mutual development"*, a culture of flexibility rather than demanding social and environmental standards, and the shared experiences of recent reform and opening up to the global economy rather than a history of colonial exploitation and control.

Certainly this approach has helped Chinese companies to gain contracts, and it is a view echoed by African leaders. The Sierra Leone ambassador to Beijing observed that: *"The Chinese are doing more than the G8 to make poverty history...If a G8 country had wanted to rebuild the stadium, we'd still be holding meetings! The Chinese just come and do it. They don't hold meetings about environmental impact assessment, human rights, bad governance and good governance. I'm not saying it's right, just that Chinese investment is succeeding because they don't set high benchmarks."*<sup>38</sup> However other business leaders recognise that there is a link between poor governance and the business challenges they face: *"As a result of inefficient administration, rampant corruption, social gap between the rich and the poor, problems are faced for engaging in business activities in African countries of poor public security, low levels of education and poor labour skills, inefficient government administration and poor medical conditions."*

### **4.3 ESG risks**

Amongst the business leaders interviewed there is a strong awareness of ESG risks directly affecting the immediate operation of the business, and the foundations for its productivity and viability. Broader reputation, environment, political and social risks are also considered, but appear to be assigned a lower importance, judging both by the qualitative discussions and by a count of the number of mentions of issues across all interviews.

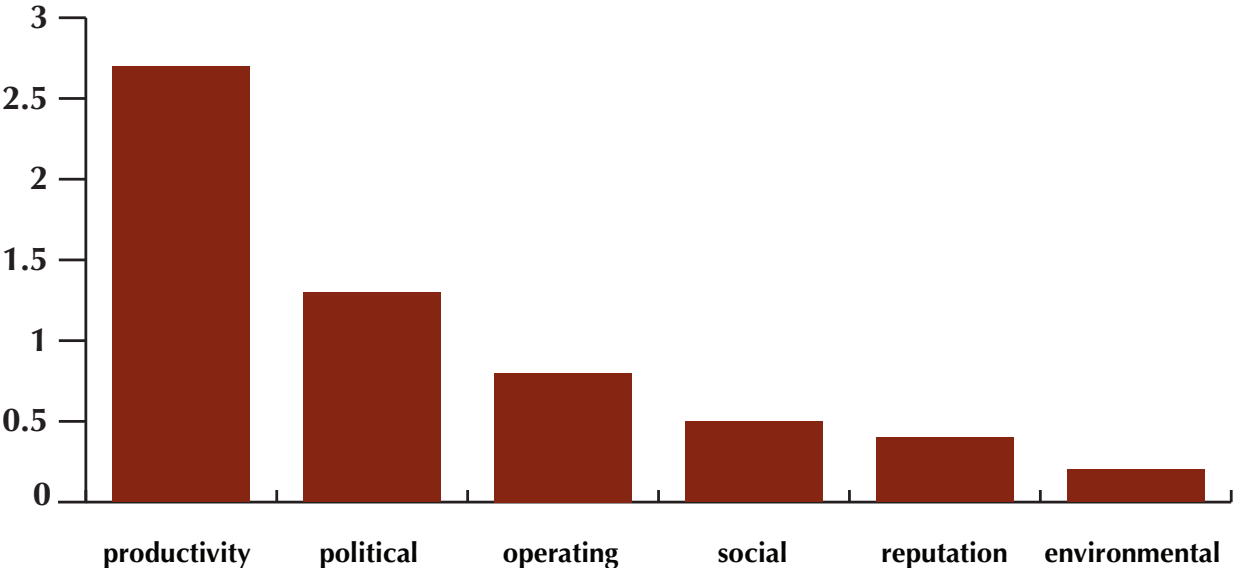
In analysing the interview findings we have broadly categorised the risks and issues mentioned, into six groups (although of course some discussions overlapped more than one area):

**Exhibit 5: Risk areas**

<b>Risk area</b>	<b>Explanation</b>	<b>Issues mentioned (in order of frequency)</b>
<b>Productivity constraints</b>	Factors in the local operating environment that constrain ongoing productivity and profitability.	Lack of skills and education, medical conditions, cultural divides, talent management, harsh natural environment, poor infrastructure and local supply chains.
<b>Political and economic risks</b>	Systemic national risks which affect ongoing profitability and the attractiveness of investment locations.	Currency risk, political instability and insecurity, economic instability, terrorism.
<b>Operating risks</b>	Risk of loss or stoppage of operations resulting from inadequate or failed internal processes, people and systems, or from external events.	Poor security, labour disputes, health and safety concerns.
<b>Social license to operate</b>	Issues affecting ability to demonstrate community benefit, gain local acceptance and meet social commitments.	Corruption, human rights, need for community relocation.
<b>Reputation risks</b>	Issues affecting overall brand reputation.	Negative attention from Western and local media, irresponsible companies undermining reputation of Chinese business.
<b>Environmental risks</b>	Environmental performance and compliance issues.	Environmental regulation, need for environmental responsibility.

**Exhibit 6: Frequency of risk areas mentioned in interviews**

Average number of unprompted mentions



[Source: Interviews carried out by DRC, analysis by AccountAbility – issues mentioned spontaneously in relation to challenges to their business in Africa]

The most frequently mentioned issues (in order) were: low education and skills levels; medical risks to employees and political instability; corruption; cultural divides; currency risk; and poor security (all at the same level).

**4.4 Conceptions and drivers of CSR**

In general the main drivers for considering corporate responsibility appear to be:

- ▶ **Growing awareness of CSR and recognition of the need for sustainable development in Africa, to sustain growth of Chinese enterprises.** This win-win strategy is most often expressed in terms of enterprise productivity and philanthropic support for local community services. As one business executive said: *“We must emphasise social responsibility. Social harmony is required for African countries and the demands for the business to contribute to local services also increases, the company must operate well for long-term development.”*
- ▶ **Promotion and advocacy for CSR by the Chinese government.** Although not a mandatory requirement, the Chinese government has emphasised the principle of “mutual benefit and common

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growth". For example, in January 2007, Cheng Siwei, vice-chairman of the standing committee of the People's Congress, called on Chinese companies to be more conscious of their social responsibility, including in their international investments. He said that 'irresponsible practices' had prevented Chinese companies from expanding their business overseas, and warned: *"Even in developing countries, foreign companies that turn a blind eye to their social responsibilities will be kicked out of the market."* A number of business leaders emphasised the role of the Chinese government in coordinating and guiding CSR improvements, as one said: *"Negative perceptions of Chinese business are due to the lack of integrity caused by a few enterprises, the local evaluation is low. For china, we shall coordinate the situation for government level, and should not completely rely on enterprises to improve."*

▶ **Response to business partner and investor practices and requirements for social responsibility.**

Some of the companies have adopted the environmental and social standards of their Western joint venture partners. For example an executive from CNOOC noted that: *"We draw on the ESG experience of our joint-venture partner TOTAL in handling issues and concerns in Africa but also for us to learn from their practice."* In the mining sector some Western companies have stated that these standards are principles of engagement for African joint ventures with Chinese companies.<sup>39</sup>

▶ **Response to local concerns about Chinese business in Africa.** There is a rising chorus of concerns about the impacts of Chinese business in Africa, in particular on local employment prospects. For example, Michael Sata, the opponent in Zambia's presidential elections in 2006 achieved significant support campaigning on an anti-China platform, reflecting the danger of anti-Chinese sentiment in some African countries where Chinese workers are perceived to be taking jobs away from locals. While these concerns are not unique to Chinese businesses, neither can they simply be brushed away as xenophobia or protectionism. Chinese businesses, like others before them entering the global business arena will need to understand, confront, and address these concerns.

▶ **Need to address environmental and social issues with immediate impacts on operations and costs.**

Amongst the business leaders interviewed there is a strong awareness of ESG risks directly affecting the immediate operation of the business, and the foundations for its productivity and viability. Issues such as low education and skills levels, medical risks to employees, corruption, cultural divides, currency risk, political instability and conflicts and poor security are widely recognised.

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- ▲ **Concern that Chinese businesses performing well will suffer reputation penalties because of smaller and less well managed Chinese enterprises.** In general the perception of the business leaders interviewed was that large-scale enterprises and those located in the most developed regions of China attached great importance to CSR issues, and had more measures to manage them, while smaller scale enterprises are less focus on CSR. Anecdotally it was reported that while concern of Chinese business in the Western media is focused on large, mainly state-owned companies and their geo-political relations, the concerns most often expressed in local media in Africa are about the conduct of smaller firms and their failure to meet local laws and norms. Many of the larger companies expressed these concerns when talking about the reputation of Chinese business, and the need for collective action.

Almost all of the enterprises investigated were familiar with the concept of CSR, and commented on the need to be seen to contribute to, and meet the expectations of their host communities. As one executive noted: *“The practice of social responsibility increases the credibility of enterprise, and optimises the relationship between business and society so that enterprise development base can be further progressed.”*

Some enterprises have a formalised vision of CSR. For example Xinguang Group includes five aspects within the sphere of CSR. They are: profitability for shareholders, welfare of employees, service to clients, protecting the environment and abiding by laws and regulations.

#### **Box 6: Guang Dong Xinguang Group’s concept of CSR**

- ▲ Be a company of satisfaction. The company is responsible for inflation proofing and appreciation of state assets. Meanwhile, it is the company’s duty to produce satisfied value repayment for shareholders.
- ▲ Be a company of the world. The company offers safe, healthy production with best quality and premium services. Meet people’s demand and produce public wealth.
- ▲ Be a company of employees. The company cares for its staff and protects their legitimate rights and interest from being intervened; encourage them to grow up with the company.
- ▲ Be a company of harmony. The company’s primary business covers the field of architecture and construction. It is indispensably necessary to maintain a good environment, save energy and ensure security in the producing process.
- ▲ Be a company of nobility. The company will follow the business ethics and norms and codes, and strictly obey established laws and regulations.

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For most others CSR was expressed as a combination of contributing to local economic growth and job creation, complying with local laws and caring for the environment, and making philanthropic donations to support schools and hospitals.

Almost universally the executives interviewed emphasised the primary role of business in driving and contributing to economic development, and the urgent need for this growth particularly in the least-developed countries in Africa. They see Africa's development as mirroring China's own pathway and emphasise the need to "shake off poverty and set out the road to prosperity" as a prerequisite for addressing broader environmental and social issues.

Many stated that the first social responsibility of business is to operate with the maximum productivity, which means by assuring quality, enabling projects to be completed with the fastest speed and lowest cost, and making the benefits of their products, services and technologies available to consumers, joint venture partners and national economies. For example CNPC emphasises its partnership in developing Sudan's petroleum industry, and has directly created over 20,000 jobs for local people. *"Before the commissioning of Sudan 1/2/4 district project, Sudan totally relied on import trades for its oil consumption which restricted is economic development. Starting from this base of zero, China Petroleum established a modern oil industry system with upstream and downstream integration. Sudan developed from an oil products importing country to exporting country, and fiscal revenue turned blue from red. Aviation fuel, diesel and chemical products are now in sufficient supplies."* ZTE Corporation is providing GSM network capacity in countries such as Ethiopia and Libya. In Libya, the company's operations have allowed cell phone use to reach 70% of the population and SIM cards have come down in price to less than 1% of their original cost.

A key aspect of these firms contribution to economic development is employment creation. Most enterprises emphasised that they are creating local employment, with local workers making up 60-70% of the workforce and with Africans increasingly in staff supervisory and technician roles. For example Huawei state that in a few countries, African nationals hold the General Manager position (second most senior executive of country operations) and some of them have stock options. While Sany says that the salary of local managers are 10% higher than that of local similar management roles (equivalent or even higher than US and European companies).

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Many companies emphasised the importance of staff development. ZTE Corporation established three training centres in Africa, providing communication technology and management knowledge training for clients, governments, and local employees and students. Other companies such as CNPC have also sponsored local students to attend higher education in China (see Annex 2: Company profiles, downloadable from [here](#).)

The enterprises also emphasised that compliance with local legal frameworks is core to their corporate responsibilities, and gave strong emphasis to the need to hire local legal teams and gain a strong understanding of local legal issues.

Philanthropic social investments were also given strong emphasis. Local contributions such as building schools and hospitals and hosting community events are seen as the main expression of corporate social responsibility. For example, as an executive from China Geo-Engineering highlighted: *“We provide immediate assistance in the case of local disaster. After the earthquake occurring in Algeria, CGC was the first company to send a check, and then received praise from the Algeria government”*. CNPC has built hospitals and clinics in areas where it operates, donating medicine to rural communities. Almost every company interviewed mentioning their actions in this sphere, and some smaller companies often confined their understanding of CSR to such charitable donations.

A key difference between Chinese business leaders’ and western business leaders’ conception of CSR is the extent to which they are willing to consider whether business practices reinforce, or alternatively undermine, local judicial, legal and political institutions, particularly institutionally weak countries. This stems in part from the radical differences in history, and approach between Chinese and western governments. China’s non-involvement policy keeps Chinese businesses away from “intervening African countries’ internal affairs” and therefore, few business leaders discussed issues such as corruption, transparency or human rights as part of their CSR responsibilities. Instead, where they mentioned these issues it was often in terms of a strong belief that the history of Western colonialism in Africa has undermined self-governance and that involvement of foreign players in questions of national governance and institutions only aggravates these those issues rather than contributing to solutions.

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#### 4.5 Management of social responsibilities

Most enterprises investigated have not established a department specialised in CSR management or establishing a clear management system on CSR. Policies on CSR are determined and managed within functional departments, mainly from headquarters in China. For example, the arrangement of one large enterprise is that the General Office is responsible for philanthropy; department of human resources is responsible for labour union and human rights; the auditing department is responsible for anti-corruption work; and HSE is responsible for health, security and environmental management.

Some enterprises have begun to establish a CSR department. For example in 2008, ZTE Corporation set up a team specialised in CSR. The company has begun to set up a CSR management system covering the entire company.

In outlining the way that their companies are responding to social and environmental challenges, the executives mentioned both ‘hard’ – formal, performance and rules-based systems managed from headquarters and ‘soft’ – more informal, process and relationship-focused approaches, arising from local operations.

#### Exhibit 7: Hard and soft approaches to managing CSR

<b>Hard approaches</b>	Policies, commitments, adoption of standards, measurement and management systems.
<b>Soft approaches</b>	Leadership, culture, stakeholder engagement, community relations, media relations.

Chinese companies with broad experience of global operations tend to mention a broader range of both ‘soft’ and ‘hard’ measures for managing corporate responsibility, while those (generally smaller and more often privately-owned) companies that had only just begun international operations in Africa mentioned fewer. They relied most on local security risk assessments and on following local laws as key measures for managing ESG risks.



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## Soft approaches

Many enterprises emphasised the importance of developing a culture of mutual respect between Chinese companies and their African workforce, local communities and government hosts. As one business executive put it: *“We accept, understand and respect Africans, and do not treat them as inferior people. We practice equal treatment and living in harmony. On security issues, deeper understanding of the society means more safety. If we actively integrate into the local environment, and get along well with the local people, they will protect us.”*

Although the business executives stressed the importance of good relationships, these were shaped by the culture of Chinese companies that tend to take a low-key attitude, keeping themselves separate from the stakeholder groups. These companies have strong established internal cultures and little domestic experience of engaging with NGOs or of learning from and listening to broad stakeholders. Many companies turn to government to settle disputes with local communities, and assume that this engagement with local and national government will ensure broader community support. However, some Chinese companies operating overseas for a longer period of time are starting to recognise the importance of stakeholder learning.

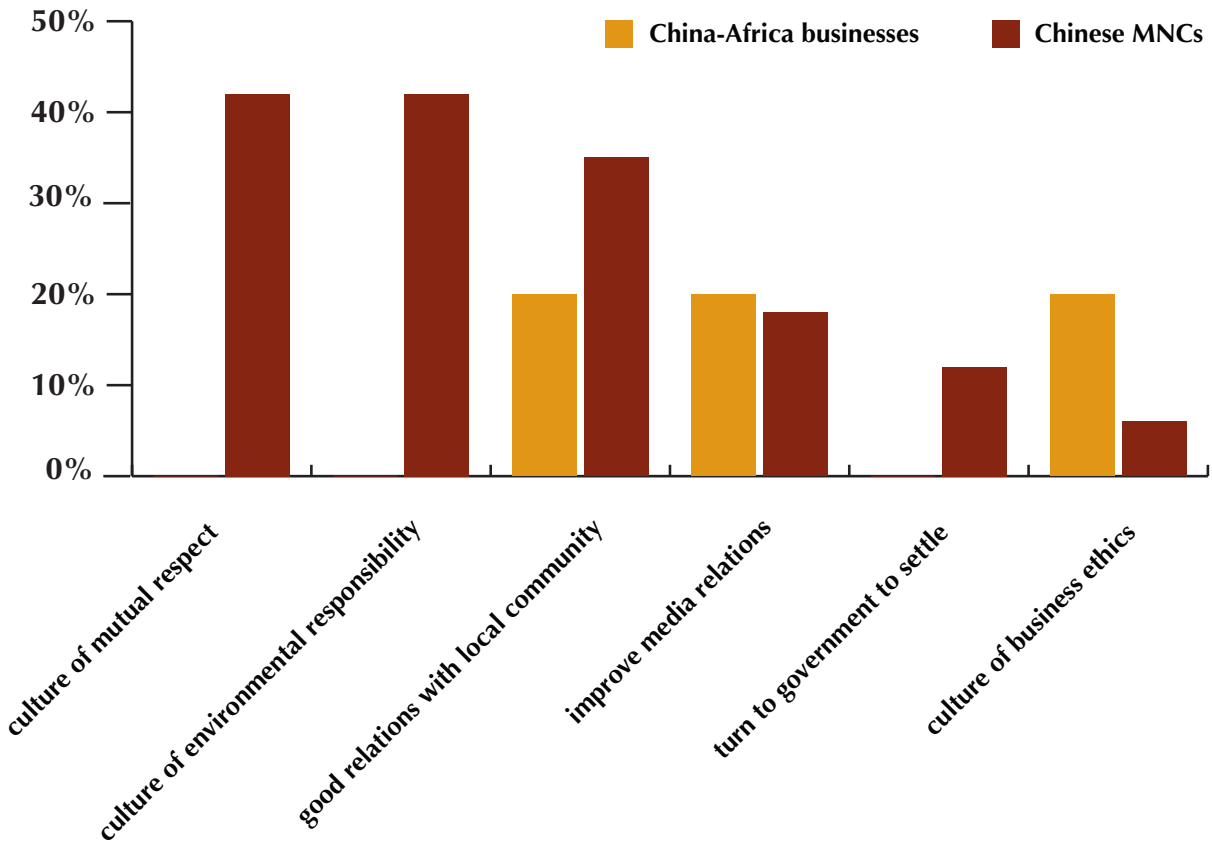
Some companies are seeking to develop more active stakeholder engagement beyond government agencies. One company for example has set up an office for liaison in the local community where the mining site is located. They also invite the local residents and media to visit China, looking into operations in the home country and ensuring good practice exists and prevails.

Many of the companies were aware of critical coverage of Chinese business operations in Africa. They countered that these reports are caused by bias or lack of understanding, particularly on the part of the Western media. Some of the enterprises believe that they need to strengthen the communication with the media, and hope the Chinese government will provide support and guidance, while a small number of companies, such as CNOOC, are already working to improve their communication with the media. Exhibit 8 and 10 give a summary of the frequency of mentions of different approaches by companies operating as global multinationals, and those for whom their African operations are their first experience of ‘going out’. Although, as we have mentioned these results are only indicative, it suggests that there may be a difference in approach between companies for whom CSR is an international practice and those who are responding only to more localised pressures and norms. In particular companies operating

in Africa only appear to rely more on following local laws, and using risk analysis, as well as their own culture of business ethics. Companies with more international experience tend to turn to a wider range of both 'hard' and 'soft' measures to manage CSR.

**Exhibit 8: Managing social responsibility: 'soft' (relationship focused) measures**

% of interviews making unprompted mentions of these approaches



**Hard approaches**

In terms of 'hard' policies and practices for managing CSR key measures mentioned were:

- ▶ **Risk assessment.** In line with the high levels of concern about operating and productivity risks, the enterprises investigated attach great importance assessing and addressing risks to the safety and security of employees. Many provide medical support and measures to improve hygiene and reduce disease exposure in the working environment. They also conduct security risk assessments and take

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action including postponing or cancelling access to areas without safety guarantees, and hiring local security guards for safety protection.

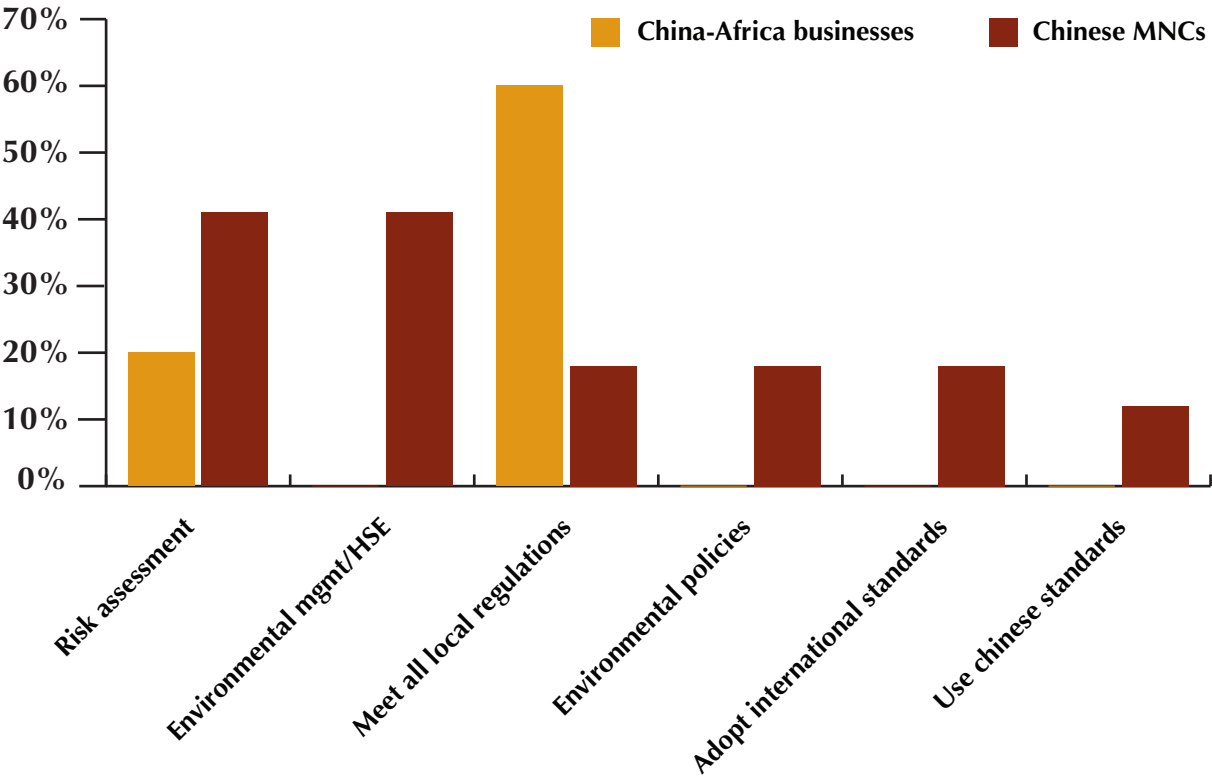
- ▶ **Abiding by local laws, regulations, customs and conventions.** All of the enterprises investigated attach great importance to meeting local laws and regulations, and respecting local religious beliefs and customs. While there was some recognition of the disconnect between laws on paper and norms in practice, none of the companies appeared to consider this a major problem. Most stated simply that where there is lack of regulations, they employ their own standards such as environmental assessment based on Chinese management norms, and in some cases, draw on internationally accepted practice.
- ▶ **Environmental policies and management systems.** Many enterprises have taken some environmental protection, resource-efficiency or safety measures and some have implemented integrated environmental management systems. Sinosteel Corporation for example uses its own system of “safety first, prevention-oriented, comprehensive management”. These measures were more prevalent amongst ‘true multinationals’ than amongst those companies only just starting to expand outside of China.
- ▶ **Adopting international voluntary standards, for quality management and environmental management systems.** Some have adopted their European and American partners’ standards on CO<sub>2</sub> emission, power utilisation and land use. Huawei for example is certified to ISO 14001, OHSAS 18001, SA8000 and EuP. Five out of twenty-two enterprises investigated have joined the UN Global Compact. They are: Huawei Technologies Co., Ltd., China National Offshore Oil Corp, ZTE Corporation, Sinosteel Corporation and China National Petroleum Corporation.

**Exhibit 9: Adoption of International Standards**

Standard	ISO9000 series, quality management	ISO14001 Environmental management	OHS18001 Occupational Health and Safety	UN Global Compact Human rights, labour, environment and anti-corruption principles	Others (those mentioned such as RoHS, WEEE, etc)
Quantity of Enterprises Participating	17	11	7	5	4

**Exhibit 10: Managing social responsibility: ‘hard’ (policy focused) measures**

% of interviews making unprompted mentions of these approaches



Five state-owned enterprises and two private enterprises in the study have already published CSR reports (and three enterprises within the study are covered within the report of their parent company).<sup>40</sup> Those enterprises that have not issued CSR reports give two main explanations: the first is ‘*more achievement and less talk*’; and the second is that they do not have a clear understanding of the purpose and need

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for a CSR report. Those that had published reports did not mention the process as driving learning or management of CSR issues.

#### 4.6 Key challenges

In the interviews and roundtable discussions there was a strong sense that, despite a commitment to mutual development, the combination of hard and soft approaches to managing corporate social responsibility currently in place are not sufficient to address the ESG risks that companies face. Senior managers feared that this is leaving businesses exposed to operational and productivity risks as well as the reputation risks of not meeting expectations for the social and environmental performance of multinational companies.

Key factors highlighted were:

- ▶ **Lack of integrated systems and experience to embed understanding, capacity and practice of CSR into strategy and management structure.** Effective CSR practice goes beyond legal compliance and philanthropy. While many companies say they address some environmental and social issues in their approach to risk assessment, few have a comprehensive management system in relation to ESG issues, and so many are dependant on particular managers' experience which leads to inconsistency and ad hoc responses. Some of the discussions seemed to indicate a low level of awareness of the social and environmental risks associated with business actions. Indeed, one executive from a company in the construction sector said that the company's construction work does not cause "much pollution or many environmental problems" while another said simply that building would involve "some clearing of the local jungles". A number of companies mentioned using private security contractors to protect their facilities or relying on local government action to relocate local communities away from extraction sites. However, none of them discussed the possible risks this might entail.
- ▶ **Lack of coordination between soft systems for stakeholder relations and hard systems for performance management** can result in local staff not being incentivised to address social and environmental issues. Even though Chinese business executives stressed that good relations with stakeholders are important for doing business, companies generally have not embedded broad engagement with stakeholders in their operating practices, training or management systems. Corporate

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priorities which put speed and cost above all, and which rely on regional managers reporting any problems to corporate headquarters put local staff in a position where they are not incentivised to address emerging social and environmental issues if this means additional costs or delays.

- ▶ **Lack of experience in engaging effectively with civil society and media and of creating active community partnerships** that go beyond philanthropy towards mutual learning and negotiated solutions to shared challenges. The international experience of CSR is that opening up two-way communication with stakeholders is crucial for companies to understand emerging ESG risks, and gain support from the external stakeholders. However Chinese businesses do not have much experience of engaging with the ‘soft power’ of active and critical civil society and media and are not oriented towards engaging with civil society and creating active community partnerships to shape market conditions.
- ▶ **Lack of appropriate standards.** Compliance with local laws is not enough in situations where states are weak or fragile and rights and responsibilities are contested. At the same time Chinese enterprises are wary of adopting international standards. The main competitive advantage of Chinese companies operating in China are their low cost base, willingness and ability to work in difficult situations, cross industry sector collaboration and long investment timelines. The ESG issues and drivers of performance faced by companies in these situations are neither answered adequately by Western CSR standards, or by traditional reliance on philanthropy and local laws. The assumption that compliance with local laws and cooperation with local political elites are enough for good corporate citizenship breaks down in situations where states are weak or fragile and rights and responsibilities are contested. While some Chinese enterprises have adopted technical standards such as ISO 14001, many companies felt that international standards are not appropriate and none had engaged with more unfamiliar or controversial standards emerging from multi-stakeholder processes, which address the link between public-private partnerships in construction and natural resource exploitation and benefits to the community.

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## Chapter 5: Ways forward

### 5.1 Strengthening CSR with Chinese characteristics in Africa

The study explored the approaches and attitudes to CSR being established amongst the Chinese business leaders of companies operating in Africa. It explored the development of an approach to ‘CSR with Chinese Characteristics’ centered on contributing to local economic development, a commitment to meeting local laws and a tradition of philanthropy.

However the subsequent discussion reflected that this framework was not sufficient to enable local managers to address the ESG risks they face adequately, or at a corporate level to address the concerns and criticisms from stakeholders in Africa, and critics internationally.

Chinese enterprises operating in Africa therefore need to develop strategic approaches to CSR that enable them to ensure they do deliver the win-win outcomes promised. These systems must enable them to:

- ▶ **React quickly and effectively** to risks and emerging issues;
- ▶ **Develop sound strategies** for addressing the broader risks to their long-term business expansion in Africa;
- ▶ **Enhance innovation and productivity** through good relations with stakeholders that enable learning;
- ▶ **Demonstrate, measure and improve business impacts on society**, building on the recognition that the business contribution to local economic development is of prime importance, but also facing up to the dilemmas often involved; and
- ▶ **Assure stakeholders in Africa and internationally** of the responsibility and positive development impact of the ‘China Brand’.

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Business executives at the roundtable expressed a need for a “feasible” framework or set of tools that could help them systemise the current ad hoc ESG management approaches, into a “scientific CSR management system” that can both quantify and qualify their performance. It is crucial that this enables and recognises the role of stakeholder engagement and learning in driving CSR performance, and does not just set inflexible technical social and environmental standards.

They also called for more opportunities for sharing experiences so that Chinese companies can accelerate their own learning and contribute to the development of a new generation of standards coming from emerging market economies. As one participant summarised: *“Chinese companies haven’t set up formal systems to manage CSR effectively, but they have done a lot in practice which we could share. Meanwhile, China needs to communicate and engage with the external world, because many of our standards were formed without communication with the outside; it’s time for us to let others understand our standards and us to understand theirs. I believe we will find more commonalities and less differences around the principles of sustainability.”*

At the roundtable discussion, companies had the opportunity to compare the gaps emerging between challenges facing staff on the ground and policies set by parent companies with the experience of Western businesses operating in challenging political environments. While Chinese businesses and Western companies face different CSR drivers, and are pursuing different business strategies, and have different geo-political ‘rules of the game’, history nevertheless offers some useful lessons. Chinese companies can gain much from understanding the history of other globally operating businesses in addressing ESG issues – not in order to adopt Western CSR methodologies, but to recognise the cycle of defensive, responsive, managerial, strategic and collaborative responses to social and environmental challenges that so many companies have gone through, often painfully, and with significant financial and reputational damage.

Chinese companies are at an early stage of learning on many of the environmental, social and ethical issues they face in Africa. In general they defer to the government standpoint on issues of governance and corruption, which holds that different countries have different views in the international politics arena and that norms should not be imposed to any individual state through international pressure. However during the roundtable discussion, some companies did reflect on the risks that these issues posed to their businesses and said that they are starting to learn and engage with stakeholders, both at central government and local community levels.



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The experience of other countries is that voluntary standards offer a crucial way forward in accelerating the development of CSR; addressing common dilemmas, building on good practice and overcoming obstacles to strategic action. However this study confirms the findings of the recent AccountAbility and DRC study which noted that Chinese enterprises, and the Chinese government, are in the main uncomfortable engaging in non-state processes of standards development, with the exception of more structured institutional processes such as those led by the International Standards Organisation. Multi-sector standards are not seen as open and applicable to Chinese businesses, and as a result, China has in the main sought to ignore, and if necessary evade them. As the study concluded: *“The impact of this default positioning erodes trust in Chinese businesses and the China brand overall, creating the grounds for more overt protectionism and moralising by the global community. This, in short, provides the basis for a vicious circle with no winners.”*<sup>41</sup>

Chinese enterprises remain, in the main, unaware of the history or place of collaborative standards initiatives in global markets, relying on their own, often poorly-informed knowledge networks to guide them in associated perspectives and decisions, therefore knowledge development in this area is crucial. There is a clear need for standards and frameworks for CSR amongst Chinese companies and to enable the rest of the world to understand how CSR with Chinese characteristics can provide assurance of positive social and environmental impacts.

## **5.2 Recommendations**

Chinese business approaches to CSR will surely evolve in the face of drivers and ESG issues they face. However the experience of other global businesses demonstrates the considerable pain barrier of denial, confusion and conflict to be overcome, and the opportunities to accelerate learning through collective action to develop expertise and common frameworks for performance.

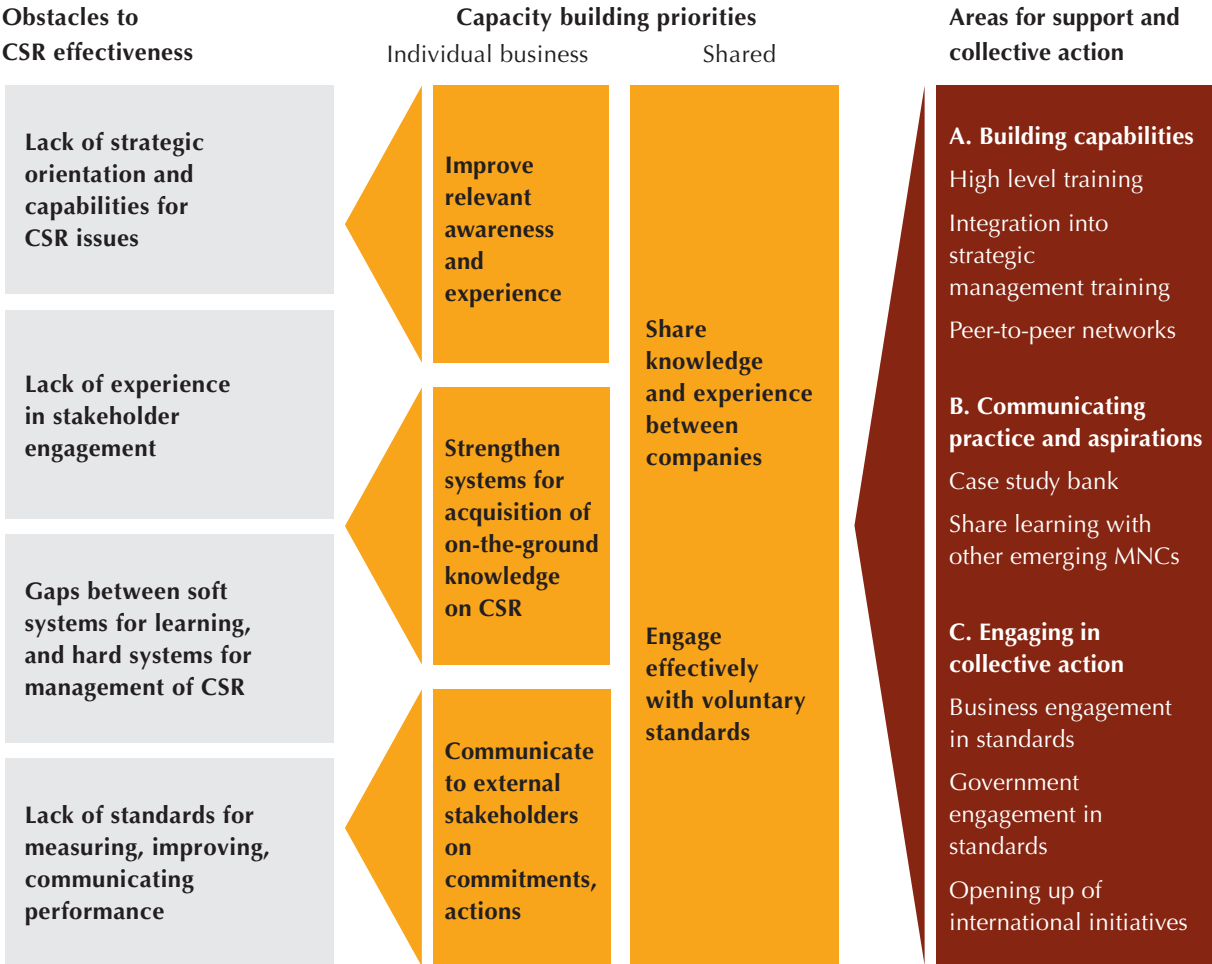
The capacities of Chinese businesses, including not only business units operating in Africa but also their parent companies, headquarters and global leaders, could therefore be usefully enhanced so as to:

- a) Improve relevant awareness and expertise;
- b) Strengthen the acquisition and internal communication of on-the-ground knowledge;
- c) Share knowledge and good practice between companies;

- d) Engage effectively in multi-stakeholder voluntary initiatives;
- e) Communicate to external stakeholders as to what has been achieved and their aspirations for the future.

Key areas for action are building capabilities, communicating practice and aspirations and engaging in collective action.

**Summary of Recommendations**



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## A. Build capabilities

- i) **Target higher level training** and learning experiences for Chinese business leadership.
- ii) **Incorporate CSR** into existing strategic management training.
- iii) **Establish a cadre of influencers** through peer-to-peer education via an informal series of roundtables, learning-by-sharing sessions and development of senior leadership networks.
- iv) **Target CSR networks and training towards ‘future leaders’** amongst emerging Chinese business leadership in clean technology, internet, buildings and other areas that are younger, more connected globally, and open to being leaders in this space.

## B. Communicate practice and aspirations

- i) **Develop a case study bank** to share specific experiences from Chinese companies in Africa and other regions in Asia. This would enable companies to reflect and share learning. These case studies should highlight both good practice as well as challenging issues and real dilemmas.
- ii) **Share learning between Chinese businesses and companies from other developing countries** (such as Brazil, India and South Africa) that are addressing the same challenges.

## C. Develop and engage in collective action

Action by several key players is crucial:

- i) **Chinese government can be more proactive** in appealing, promoting and guiding Chinese companies to take social responsibility.
- ii) **Engagement by major Chinese businesses** with relevant existing standards, and their development joining in global collective action on issues such as economic development, anti-corruption, transparency climate change and ecosystem stewardship.
- iii) **Engagement by the Chinese government in international standards**, taking an active role where other governments are involved in advancing reviews of their content, positioning and governance.
- iv) **Engagement by international coalitions and sector associations**, in order to move away from their Western dominated roots and actively work to involve more Chinese companies in supporting these activities.

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## Endnotes

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## Acknowledgements

We are grateful to all the people that offered their time, insights and experiences to this research, and to the companies that participated in the study. We are especially grateful to the people who attended our seminar on 24th April 2009 and provided useful and insightful recommendations to the report, including: Lanlan Sun from the State Council Development Research Center International Cooperation Department; Brian Levy from the Poverty Reduction and Economic Management Network of the World Bank and Phil Karp from the World Bank East Asia and Pacific Region; Mark George from the UK Department for International Development (DFID); Guoqiang Li from the State Council Development Research Center Enterprise Research Institute; Xianghong Lu from China Exim Bank; Xianghua Huang from the Department of Economic Cooperation of the Ministry of Commerce of China; Wenping He from the Chinese Academy of Social Sciences West Asia & African Studies Institute; Peng Li from the China GEO-Engineering Corporation; Haiping Ren from the SINOSTEEL Corporation; Jia Lin from the Guangdong Xinguang International Group; Jianchun Ding from the China National Offshore Oil Corporation; Guoying Qiao from the Finance Department of CCECC-BEYOND International Investment & Development Co., Ltd; Lintao Wang from the Business Department of CCECC-BEYOND International Investment & Development Co., Ltd; Jun Wang from the China Civil Engineering Construction Corporation; Zhibin Sun from the ZTE Corporation; Yi Li from the Huawei Technologies Co., Ltd; Xin Fang from the State Council Development Research Center Enterprise Research Institute; and Shuping Ma from the State Council Development Research Center Enterprise Research Institute. Many thanks to Zhouyan from DRC-ERI and Yi Shi from AccountAbility for their excellent work to coordinate this roundtable.

We are grateful to people from relevant government ministries and commissions, and companies, who facilitated the research. They are: Lin Chen, Jian Li from the Department of Economic Cooperation of the Ministry of Commerce of China, Lanlan Sun from the Council Development Research Center International Cooperation Department, Yaogang Zang, Guoliang Zhang, Jie Jiang from the Office of Shandong Provincial Foreign Trade and Economic, Xudong Zu, Peiyuan Feng, Dong Wang from the Linyi Suburban Economy and Trade Bureau, Jin Sun, Xiujun Wei, Yuhong Zhao, Jingjuan Bao from the Office of Jiangsu Provincial Foreign Trade and Economic, Daxin Jiang from the Wuxi Suburban Economy and Trade Bureau, Cheng Tang, and Shunlong Jiang from the Yixing Suburban Economy and Trade Bureau; Nanjing Hanrui Cobalt Co., Ltd; Nanjing Hongye Construction & Engineering Co., Ltd;

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CCECC-BEYOND International Investment & Development Co., Ltd; Nanjing Jincheng Group Co., Ltd; President of Jiangsu Pan-Pacific Mining Development Co., Ltd; Yixing Mingyue Ceramics Co., Ltd; Shandong Provincial Bureau of Geology & Mineral Resources; China Shandong International Economic & Technical Cooperation Group, Ltd; China Railway SHISIJU Group Corporation; Weihai International Economic & Technical Cooperative Co., Ltd; Luzhong consignment Corporation; Shandong Langchao Group Co., Ltd; Shandong Xinguang Co., Ltd; Shandong Longsheng Import and Export Co., Ltd; East Highway and Bridge Construction Corporation of Shandong; Huasheng Jiangquan Group Co., Ltd; Linyi Tianxi Food Co., Ltd; Shandong Xianglong Steel Co., Ltd; and Linyi Anxin Forestry Co., Ltd.

We lastly want to thank AccountAbility colleagues including: Juelin Yin, Shanwei Xia, Tania Gobena, Yi Shi and Joshua Wickerham.

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# **RESPONSIBLE BUSINESS IN AFRICA**

## **CHINESE BUSINESS LEADERS' PERSPECTIVES ON PERFORMANCE AND ENHANCEMENT OPPORTUNITIES**

**November 2009**

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This document should be referenced: AccountAbility, DRC-ERI (2009)  
"Responsible Business in Africa: Chinese Business Leaders' Perspectives on  
Performance and Enhancement Opportunities, Executive Summary",  
AccountAbility, DRC-ERI

This paper is freely downloadable from [www.accountability21.net](http://www.accountability21.net)

This study explores the understanding and practice of corporate social responsibility (CSR) amongst senior executives of Chinese companies operating in Africa, and in particular the standards which they draw on for guidance, including legal frameworks, company policies and voluntary standards.

It is based on interviews and discussions with senior executives in 22 Chinese enterprises with operations in Africa. These included both large and small enterprises, state-owned and private companies. The process was not designed to evaluate performance but rather to understand and profile the views of these business leaders who are shaping the future course of Chinese business in Africa and elsewhere.

The research was commissioned by The Poverty Reduction and Economic Management (PREM) Vice Presidency of the World Bank Group as part of a broader effort to assess the role of corporate standards and practices as a tool for enhanced environmental, social and ethical governance in developing countries. Financial support was provided by the Department for International Development of the United Kingdom. The research was carried out as a collaboration between DRC-ERI and AccountAbility. The views in this paper are solely those of its authors, and should not be attributed to PREM or any other part of the World Bank Group, or to DFID.

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