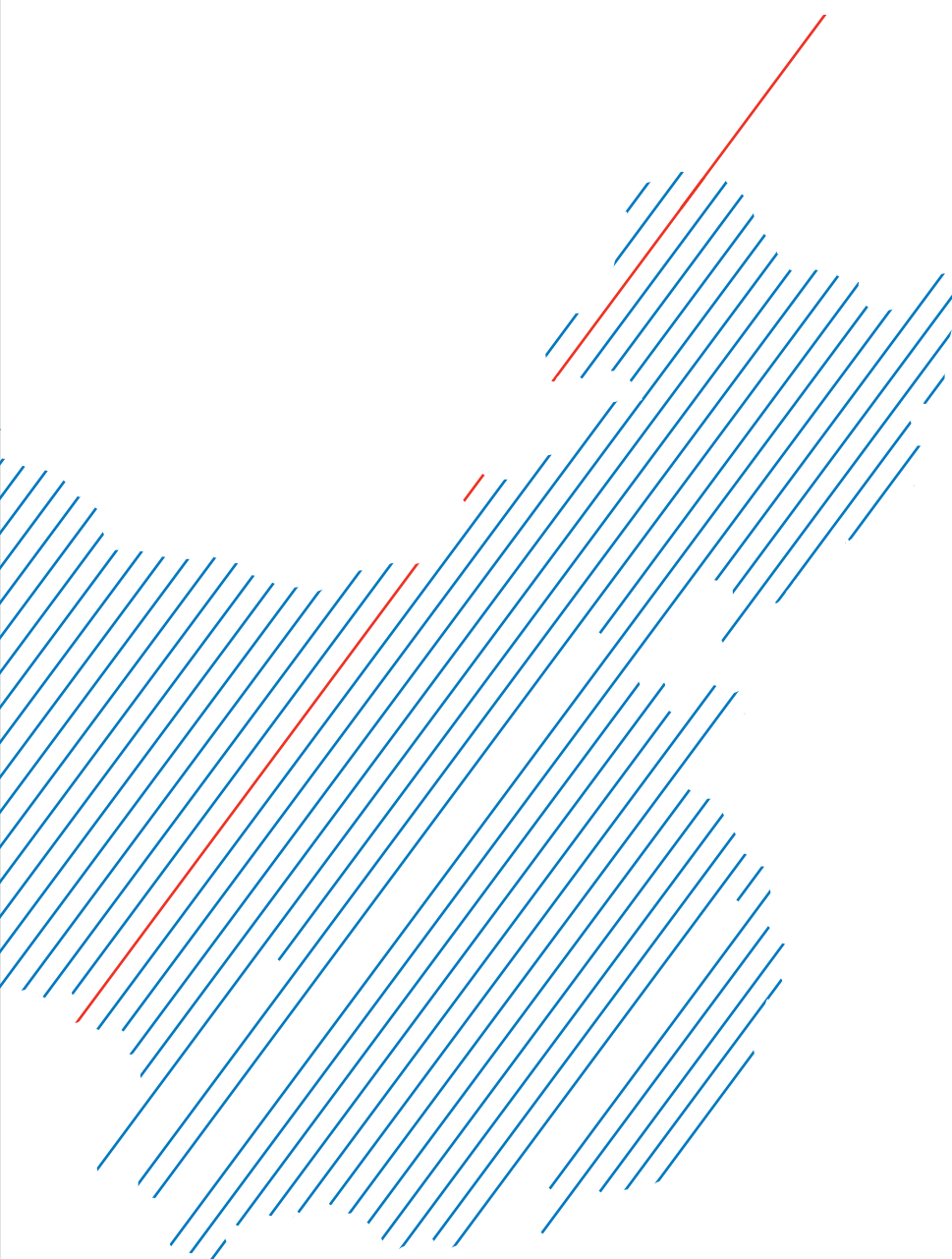




The British
Chamber of Commerce
Shanghai

CORPORATE SOCIAL RESPONSIBILITY

BEST PRACTICE FROM CHINA
SEPTEMBER 2008



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THE BRITISH CHAMBER OF COMMERCE SHANGHAI

The British Chamber of Commerce Shanghai supports members' businesses by providing key information on business best practice in China and creating vital connections. Over 9,000 executives attend more than 150 events a year held in Shanghai and surrounding cities such as Suzhou. The referral service and the online directory enable senior managers to contact directly their counterparts in other member companies in China. The website and monthly magazine 'the beat' allows members to share useful information on developments in China's rapidly changing business environment. The Chamber liaises closely with the Consulate to help members understand and resolve regulatory difficulties, provide access to visiting government ministers and assist new companies in coming to China. The Chamber has grown dramatically over the last 3 years from 450-1200 members. For more information visit: www.sha.britcham.org, call +86 21 62185022 or email admin@sha.britcham.org

WITH THANKS

The British Chamber of Commerce Shanghai would like to thank the sponsors of this report including, Amber for their expertise in collating and analysing the data of this report, the many hours spent conducting the 10 face to face interviews and of course the time spent writing and editing text. We would also like to thank 8 Days Marketing Consulting for the creation of the online survey and Promoest for their translation services.

RESEARCH PROVIDED BY: AMBER

Amber assists multinationals in China through the provision of market and business intelligence. Our work supports strategic planning, investment, customer acquisition and marketing decisions. Amber works by engaging opinion leaders and decision makers to bring clients up to speed quickly with the state of play in their business field. We use knowledge gained from subject matter experts and senior business leaders to provide clients with recommendations on opportunities for growth and risk management. Contact Amber at: <http://www.amberinsights.com> +86 21 6466 4229 enquiries@amberinsights.com

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TRANSLATION PROVIDED BY: PROMOEST

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Note about the Author: Laura Mitchelson is the Founder and Co-Owner of Amber, an independent consultancy which was established in 2005 to provide strategic planning support to multinationals mainly in the manufacturing sector in China. Laura has lived in China since 1994 and since then, has worked in a number of roles, all the time assisting and advising foreign companies in this market on their China strategy. She has worked with hundreds of SMEs and multinational corporations in China helping them to improve their understanding of their markets in China and continues to be fascinated by the developments that take place here.



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ANITA RODDICK, BUSINESS AS USUAL

PREFACE

The British Chamber of Commerce Shanghai, in partnership with Amber, is pleased to present its 'Corporate Social Responsibility: Best Practice from China' report.

We, at The British Chamber, are in the unique position of being able to act as a catalyst for information sharing on business related topics. We identified CSR as a new and challenging area to many of our member companies and decided to conduct a study into the practices and policies being used in China, the findings of which we will share across the membership.

'Corporate Social Responsibility: Best Practice from China' is a new research report from The British Chamber of Commerce Shanghai and Amber. Amber's research team wrote the report and The British Chamber of Commerce Shanghai acted as the editor.

This is the first time The British Chambers of Commerce in Beijing, Chengdu, Guangzhou, Hong Kong and Shanghai have collected survey data across China. Never before has this quantity of information about the details of implementing CSR policies in China been shared between such a large number of companies. In the report, we take a close look at:

- / Policies and standards
- / Management involvement
- / Reporting structures
- / Ethics and values statements
- / Charity partners
- / Implementation
- / China challenges
- / Budgets
- / Priorities for the years ahead

Our study is not intended as a commentary on why companies should or should not be implementing or changing CSR practices, nor is it designed to showcase any one company. On a general note, British Chamber member companies are making a significant contribution in the field of CSR in China. Since, there's always room for improvement, our aim is simply to report directly what some of the most experienced CSR managers in China believe to be best practices in this field allowing our member companies to take from the study what is truly helpful to their business.

RESPONDENTS THANKS

The Chamber would like to thank members of The British Chamber of Commerce's in Beijing, Chengdu, Guangzhou, Hong Kong and Shanghai and the interviewees in Shanghai for their time and insights.

INTERVIEWEES (LISTED ALPHABETICALLY):

AMEC, AstraZeneca Pharmaceutical Co., Ltd., B&Q China, BP (China) Holdings Limited, Capital Eight, Diageo (China) Ltd., GKN China Holding Company Limited, HSBC Bank (China) Company Limited, KPMG China, S2M Group

RESPONDENTS (LISTED ALPHABETICALLY):

Associated British Foods plc, Accu Service Group Co., Ltd., Added Value, Air Sea Worldwide (China) Ltd, Airlangga University, Allen & Overy, AMEC, Anglo American plc, AstraZeneca Pharmaceutical Co., Ltd, Astute Electronics Trading (Shanghai) Co., Ltd., Atlas Ward Structures (Shanghai) Co Ltd, Atradius Credit Information Consulting (Shanghai) Co Ltd, Axiom Oval Partnership Ltd, Baker Tilly Hong Kong Corporate Finance Ltd, Barclays Bank Shanghai Branch, BHP Billiton China, BP (China) Holdings Limited, British Council (Cultural and Education Section of the British Consulate-General), The British International School, Puxi Campus, BT China, Caliper , Capital Eight, CB Richard Ellis Property Consultants Ltd., China-Britain Business Council, Central China Goldfields PLC, China Select, Chindex International, Christina Noble Children's Foundation, CITIC-Prudential Life Insurance Company Ltd., CMP Asia Ltd, Coca-Cola Bottlers Manufacturing Co Ltd, Colin Buchanan and Partners China Ltd, Cookson Alpha Metals (Shenzhen) Co, Ltd - Enthone, CRISPINS Property Investment Management, Crown Worldwide(China) Co. Ltd, Crowne Plaza Shenzhen, CZC Trading Co, Ltd, Deloitte Consulting (Shanghai) Co. Ltd, Deloitte Touche Tohmatsu, DEPFA Bank Public Limited Company, Det Norske Veritas, DG3 Asia Limited, Diageo (China) Ltd., DLA Piper, DLA PiperUK LLP Shanghai Representative Office, DLA Piper UK LLP Beijing Representative Office, EASTWEST Public Relations, English Schools Foundation, Enhanced Datasystems Ltd, ESAB Welding & Cutting (Shanghai) Co Ltd, Essential Finance, Evolution Watterson Securities Ltd, Shanghai Representative Office, Fun Industries Asia Ltd, Futurestep (a Korn/Ferry Company), Gammon Construction Limited, GELEC (HK) Limited, GKN China Holding Company Limited, Gleds, Greens Power Ltd, GSI Group - Westwind Air Bearings Suzhou, Guangzhou Puratos Food Co Ltd, Hai Wei Business Consulting Co Ltd, Hay Group Co. Ltd , HSBC Bank (China) Company Limited, Huaxin Cement, InterContinental Hotels Group, InterfaceFLOR Overseas Holdings Inc., Interfax Information Services Ltd, Javelin Investments, J.M. Gemini Personnel Ltd., Jones Lang LaSalle Limited, Jones Lang LaSalle, JW Marriott Hotel Shanghai, Kingfisher Asia Limited, Knight Frank (Shanghai) Property Consultants Co. Ltd, KPMG China, Linklaters, Lucite International (China) Chemical Co., Ltd, LowendalMasai China, MAXUS China, Maxxelli Real Estate, NarrowGate Services International Ltd, Otto Int'l China, Ove Arup & Partners Ltd, Pacific Prime, Pacific Risk Advisors Ltd, PCH International Ltd, Pinsent Masons, Primark Stores Ltd, Proton Products Chengdu Ltd, Qualspec Asia Ltd, Regal International East Asia Hotel, Regus Business Centre, Renaissance Harbour View Hotel, HK, Renishaw (Shanghai) Trading Co. Ltd, Ricardo Shanghai Company Limited, Ronacrete (Guangzhou) Construction Products Ltd, Rotork Actuation (Shanghai) Co. Ltd, Royal & Sun Alliance Insurance Plc Shanghai Branch, S2M Group, Scott Wilson Ltd, Sedex, SEIMC, Shanghai CompAir Compressor Co. Ltd, Shanghai Scoones Agriculture Information Consulting Co. Ltd, Shanghai SECCO Petrochemical Co, Ltd, Shanghai Taprogge Watertech Engineering Co. Ltd., Advantage Williams, Shangri-La Hotel Chengdu, Source China Ltd, Sovereign Trust (Hong Kong) Limited, Standard Chartered Bank, Standard Chartered Bank (China) Ltd. Guangzhou Branch, Sunquest Marine (China) Ltd, Super Bridge International Logistics (Shanghai) Co, Ltd, Suttons International Freight Forwarding (Shangha) Co Ltd, Talent Spheres Group, TBWA\Group\China, TEAMSWORK, Texon International Ltd, The American Chamber of Commerce in Shanghai, The Edrington Group Ltd., The Executive Centre, TNT China Holdings Co., Ltd, Vermilion Partners Limited, Wang Jing & Co. ?What If!, Watermark Asia Ltd, Willis Insurance Brokers Co., Ltd China, YES Limited, YSC Ltd (Young Samuel Chambers)

EXECUTIVE SUMMARY

OUR RESEARCH HAS LED US TO BETTER UNDERSTAND THE HUGE NUMBER OF PROJECTS AND INITIATIVES WHICH ARE BEING IMPLEMENTED DAILY BY MEMBER COMPANIES IN CHINA. WE ARE NOT ABLE TO GO INTO INDIVIDUAL PROJECTS IN THIS REPORT BUT INSTEAD HAVE FOCUSED ON THE BEST PRACTICE THAT COMES FROM THIS IN THE HOPE THAT THIS WILL ASSIST MEMBER COMPANIES AND OTHERS IN RAISING THEIR GAME FURTHER IN THE CSR SPACE IN CHINA.

WE EXPLORE THE ORGANISATIONAL STRUCTURE NECESSARY TO SUPPORT CSR ACTIVITIES. FOR COMPANIES WITH LARGE SUPPLY CHAINS, MUCH OF THE FOCUS IS ON HEALTH AND SAFETY IN THE WORKPLACE. FOR CONSULTANCIES, THEY HAVE A UNIQUE SKILL BASE, WHICH ALLOWS THEM TO OFFER PRO BONO SERVICES. FOR THOSE COMPANIES PRODUCING CONSUMER GOODS, THERE IS MUCH VALUE IN THEIR INVOLVEMENT IN PROMOTING THE PROPER USE AND CONSUMPTION OF THESE GOODS. COMPANIES FEEL STRONGLY THAT CSR ACTIVITIES SHOULD BE CLOSELY RELATED TO THEIR CORE BUSINESS.

LOOKING AT THE VALUE OF CSR, WE UNDERSTAND THAT ROI ON CSR CANNOT BE EFFECTIVELY ANALYSED ON AN ANNUAL BASIS. IT'S AN INVESTMENT NOT A COST AND IS SEEN BY SOME OF THE MOST SUCCESSFUL COMPANIES AS AN INSURANCE POLICY.

METHODOLOGY

The information contained in this report is the result of personal interviews with selected member companies and 139 online surveys completed by the CSR managers of British Chamber member companies, many of whom are leaders in the CSR field.

Phase 1: Online survey completed by 160 member companies consisting of 36 questions.

Phase 2: In depth, face to face discussions with CSR Managers with 10 Chamber member companies in Shanghai.

With a view to making this a practical, useful document for British Chamber of Commerce members, we have taken an analytical look at the various programmes and policies in place at Chamber member companies and probed managers for their plans for the future.

Since definitions of what CSR covers vary with company size, industry and culture, for the purposes of this study, we took a broad definition and all of the following parameters were incorporated:

ENVIRONMENTAL

- / Climate change
- / Emissions/Discharges
- / Waste
- / Materials consumption
- / Water Use
- / Energy use
- / Soil Depletion/Ag practices
- / Land Use
- / Biodiversity
- / Mono-culture farming
- / GMO
- / Supply chain
- / Stakeholder engagement

ECONOMIC

- / Financial Performance
- / Investments-capital/R&D
- / Executive/employee compensation
- / Taxes
- / Government subsidies
- / Bribery/corruption
- / Intellectual property
- / Product selection
- / Corporate governance
- / Business models
- / Investor relations

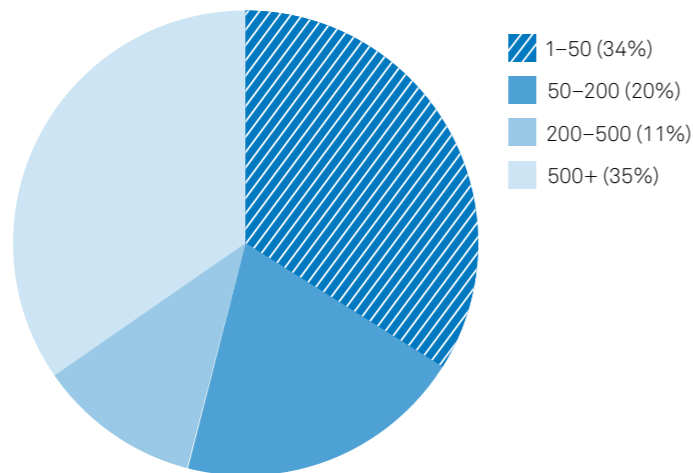
SOCIAL

- / Human Health
- / Workplace Conditions
- / Human Rights
- / Employee H&S
- / Access to Healthcare
- / Community Impact
- / Capacity Building
- / Diversity
- / Work/Life Balance
- / Privacy
- / Business ethics
- / Education
- / Supply chain
- / Stakeholder engagement

SURVEY TARGETS

The following chart illustrates the size, in terms of staff, of companies who participated in the study.

HOW MANY STAFF DOES YOUR COMPANY HAVE IN CHINA?



With some member companies employing over 20,000 staff in China and some with teams of less than 10, the scope of experience is very broad.

Over 90% of respondents to the online survey are in senior management positions and 65% are directly responsible for CSR decisions in China in their companies.

In terms of China experience, some companies are China grown, others are multinationals with long experience in China and some have only established in China in the past 1-2 years. There is strong correlation between time since first investment in China and sophistication of CSR programs amongst both SMEs and large companies. 47% of organisations have been established in China for more than 10 years.

25% of respondents have over 50 companies in their supply chains and a further 17% have between 1-50 suppliers.

BACKGROUND

THE BRANDS THAT WILL BE BIG IN THE FUTURE WILL BE THOSE THAT TAP INTO THE SOCIAL CHANGES THAT ARE TAKING PLACE.

SIR MICHAEL PERRY
CHAIRMAN OF CENTRICA PLC

Corporate social responsibility (CSR) - 企业社会责任 (qi ye she hui ze ren) - is a much talked about, hot topic. Getting it right in your company can win you awards and getting it wrong has placed some of the world's highest profile companies at the mercy of critics, lobbyists and angry customers. Now, around 40 years on from its birth as a concept, business knows it is here to stay.

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.

WHAT IS CSR?

There is no particular definition of CSR. It has been defined by the World Business Council for Sustainable Development, a CEO led institution as follows:

Cynics of CSR abound. They say that corporate social responsibility is just the latest lobbying tool. In the UK, at least, political donations are a big no-no for corporations. CSR, then, is simply another way of winning favour with government.

Yet CSR makes sense. It's easy for us all to see how decreasing energy consumption can lower costs. You can save up to 30% in business energy costs, simply with good housekeeping measures such as turning off lights and computers. Environmental and social concern often gives an obvious return on investment. Less waste means less cost. Better treatment of staff means more people stay longer and you spend less on recruitment and training. In fact, whether under the CSR banner or not, the way companies can do most good is by making money. They create jobs, products and innovation.

In terms of measurement of CSR, an industry has sprung up but is still in its infancy. The Global Reporting Initiative, based in Amsterdam, develops and disseminates a list of globally applicable 'Sustainability Reporting Guidelines' and provides an international standard. The UN's Global Compact is also used as a guide to what to consider when creating a CSR policy. The 10 principles of the Global Compact can be found in the Appendix section of this report. Britain, particularly London, has been at the center of many of the improvements in CSR policy making and measurement.

As an indication of the growing importance of the discipline, the UK has a Minister for Corporate Social Responsibility. He firmly believes that corporate responsibility is about competitiveness - about recruiting and retaining the best people. He noted, in a speech in London earlier this year, that there has been 'further mainstreaming of responsible investment practices, with the City of London acting as a global leader in this field'.

CSR, as we discovered through this survey, includes communicating best practices that range from companies who shout about their CSR efforts to those who simply go quietly about the business of minimizing negative impacts on society and the environment and maximising their positive impact.

CSR IN CHINA

Corporate social responsibility or CSR has been around since the Industrial Revolution. It is practiced in many ways, from general stakeholder awareness to outward community improvement programs. It is, however, still relatively new to China.

With the globalization of the world marketplace, it is becoming increasingly important to monitor the practices of companies in China, both foreign and local. The Chinese labour environment has had a bad reputation for many years in terms of treatment of workers, the environment and community.

Previous years have seen negative reports from China on issues like worker exploitation, and a lack of safety standards. Some of this reporting has led to consumer boycotts of companies in their home countries and in some cases there was even government pressure from home to clean up their act.

Today, corporate social responsibility is a necessary part of doing business in China. Without it, companies don't succeed.

The history of CSR development in China is a fascinating one. Seemingly harsh working conditions haven't always been frowned upon in China. We all know how the Great Wall and the Qin tombs were built. Fast forward to 1966 and the government formed the first trade union. Shortly afterwards, during the cultural revolution, it was dissolved but was then re-established in 1976 and amended in 1982 to allow workers to strike if they felt that their working conditions were dangerous. Striking for economic reasons, however, was strictly forbidden! Still, this provided little or no protection to the employees and workers rarely spoke up for fear of the consequences as the union was managed at local level and not closely monitored.

Today's picture is a very different one. Now, companies use CSR as part of their standard armoury when competing for customers, business and potential hires. Billions of rmb is tied up in the industry here and consultants who specialise in CSR policies and practice are in abundance. How does a CEO or Director get to know about the best policies and practice?

At a recent British Chamber Government Relations Roundtable in Shanghai, the British Ambassador and senior executives from top UK businesses, such as BP and Unilever, all agreed that raising the profile of the UK's business activities in this area would be positive. British companies contribute a significant amount to the debate and are closely involved across all fields of CSR in China. Globally, Britain is acknowledged as a leader in the field.

In Shanghai in October 2007, 13 foreign and domestic companies launched the Chinese Federation for Corporate Social Responsibility. Companies that have been recognised recently for their work in the CSR field at the 2007 China Social Responsibility Awards include China Construction Bank, CNPC, China Mengniu Group, China Mobile, Haier, Sony, Nokia, HP and Siemens.

Having said that, 72% of our survey respondents believes that Chinese consumers do not spend more with companies that have strong CSR policies.

LEGAL DEVELOPMENTS

Are you expected under law in China to put certain policies in place at your company? Is this picture changing?

It wasn't until 1 January, 2006 that the government of the PRC demanded that companies, both Chinese and foreign, have a CSR program in place. The Company Law of the People's Republic of China was amended to include emphasis on the social impact to the public interest. It states that "while pursuing the maximum economic benefits of the company, the company and its shareholders, directors, supervisors must also bear certain social responsibilities. The general provisions of the amended law require that the company must abide by the law and administrative regulations, comply with social ethics, business ethics, honesty and trustworthiness, accept the supervision of the government and the general public and bear social responsibility." However, even now there are no specific guidelines on how this law should be interpreted.

In just 2 years, since the government decree, there have been many steps in the improvement of standards in the Chinese workplace. The minimum wage across the country has increased (also due to the state of the economy), there are more restrictions concerning environmental protection and labour standards are improving (China's new labour law went into effect on 1 January 2008).

On October 17, 2007, at the 17th National Congress of the Communist Party of China, President Hu Jin Tao announced China's new effort to "strengthen resource and energy saving and protect the environment," as well as "become an environmentally friendly society."

These are exciting times and there is profound change happening at many levels of society which means that sustainability and community issues are now top of the agenda for government and business.

The background features a series of thin, parallel blue lines that create a sense of depth and movement. These lines are arranged in a pattern that radiates from a central white circle, which is positioned slightly to the left of the center. The lines are more densely packed in some areas and more sparse in others, creating a dynamic, almost vibrating effect. The overall color palette is a clean, light blue and white.

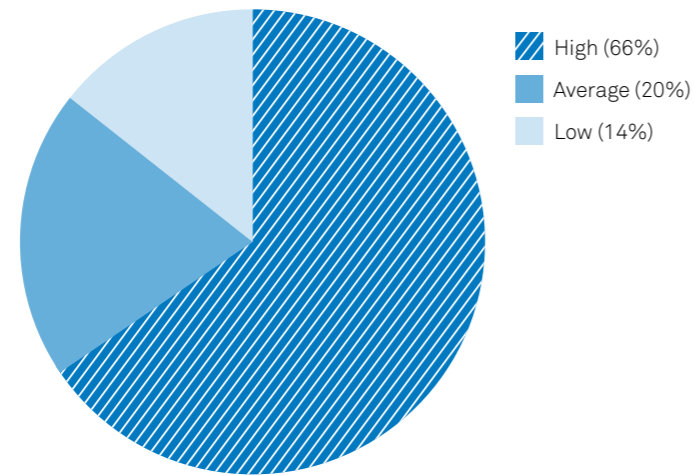
FINDINGS

CSR IN THE ORGANISATION

WHY SHOULD COMPANIES BE CONCERNED ABOUT CSR? THE RESPONSE THAT CAME BACK FROM MANY COMPANIES IS WRAPPED UP WELL BY THIS COMMENT: “IT’S STRAIGHT FORWARD...WE TAKE RESOURCES FROM THE COMMUNITY, THEREFORE WE ARE ALSO OBLIGATED TO GIVE BACK TO THE COMMUNITY.”

The big message is that CSR or being sustainable as a business or having good business ethics or being a good corporate citizen is simply a part of life in business now. It’s as much on the agenda and warrants as many emails and meetings and time commitment as HR or Marketing or Organisational Change or any of the other things that occupy time.

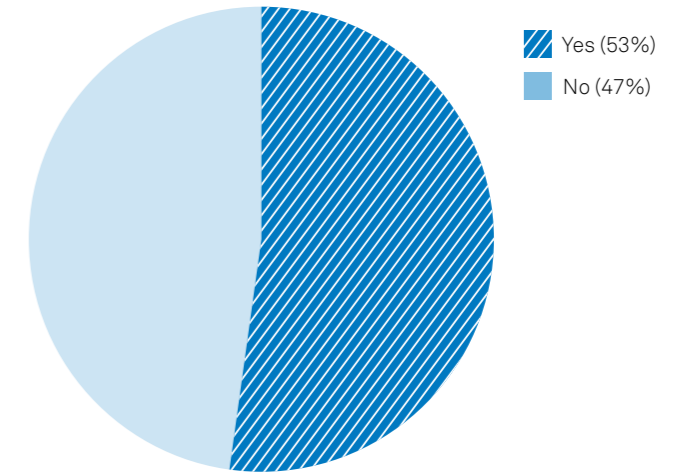
WHERE DO YOU CONSIDER YOUR COMPANY PLACES CSR ON ITS LIST OF PRIORITIES?



Some say that it should simply be a part of the way businesses operate and that even labelling it as anything that is separate from daily business operations incurs a risk that people see it as some kind of a fad. Returning again to the concept that investing in CSR is like an insurance policy, the risk of reputation damage if you had no sustainability or community programs in place is greater than the US\$ value per hour.

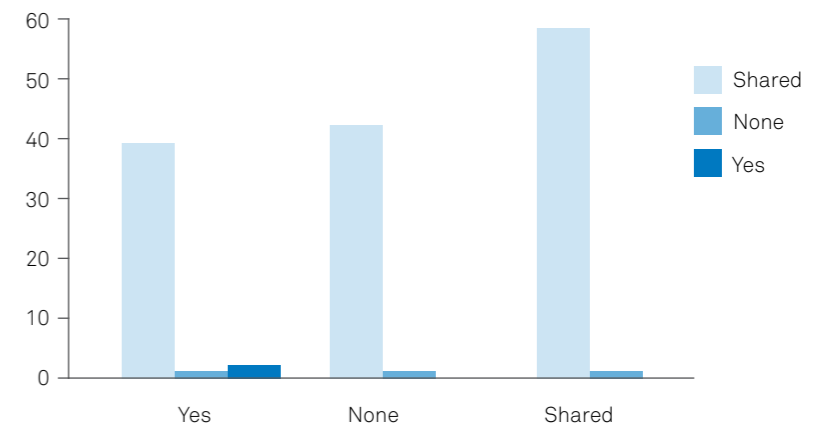
A large number of the companies we interviewed stated that they had seen direct business benefits as a result of their CSR and some of those are profiled later. In some cases, working visibly with a charity partner, leads immediately to higher sales of a certain product or service.

DOES YOUR COMPANY HAVE A FORMAL CSR POLICY?



We asked next about the existence of a formal CSR policy and found that just above half of companies do have a formal policy. This seems in contrast to the figure above and points to what commentators often say about CSR, which is that business sometimes doesn’t quite know how to handle it within the organisation. All of those companies without a CSR policy, would, I’m sure, have an HR policy, and now that CSR is a high priority for business, it’s maybe time they had a CSR policy. It is important for communicating the importance you place on CSR to stakeholders that there is a document that records aims, objectives and policies.

DOES YOUR COMPANY HAVE SOMEONE SOLELY RESPONSIBLE FOR CSR?



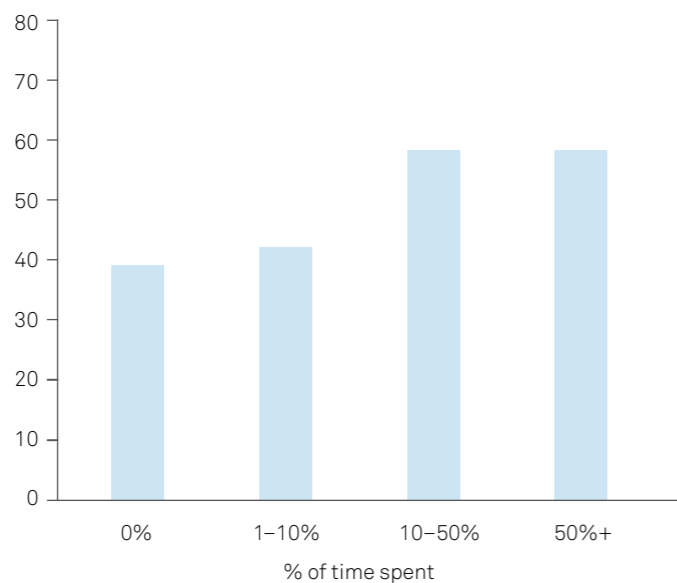
Respondents told us that, at the moment, the best way of ensuring CSR is implemented broadly across the organisation, is by making several people partially responsible for it. Only 39 out of 139 companies surveyed have someone solely responsible for CSR. Although, this move tends to come with size, some of the largest companies have several people partially responsible.

The next question, then, is where should the 'CSR person' sit? Should CSR or the person responsible for sustainability in the organisation be from or in the Public Relations department? Some new thinking from the US and Europe says no because this leads to the wrong focus for the work but in China, the majority of CSR Managers we spoke to sit within the Corporate Communications. Retailers tend to house CSR in the Marketing division, Banks in Public or Corporate Affairs or even in Government Relations and other companies with a focus on staff welfare, house CSR in the HR department. For manufacturers, most of the work is often around monitoring quality in the supply chain and therefore, the CSR person could sit in the Purchasing/Procurement department. The conclusion of this survey is that there's no right answer to this question – it is simply a case of making sure it's happening and that progress is being made. CSR is increasingly multi-disciplinary and since businesses vary so much in their structures, the key is that wherever the person or people responsible for delivering CSR in the company are, they feel empowered to be effective.

The question of what type of people should be responsible for CSR in the organisation comes after this. It may be that some of you are considering hiring a CSR Manager. Some say they prefer communications background people because what's needed is people who can execute and get things moving. In many cases, people with a government relations background are less good at action but may be better at managing the relationships with strategic local partners. There is a tendency to think that communications departments are about communicating what is done, not doing it and that CSR ought to be set apart and led by practitioners who understand the deliverable. In China, however, the majority of companies who have moved to having specific CSR departments have opted to house those within the corporate communications or PR departments. This may be something that will change over time as the industry develops here.

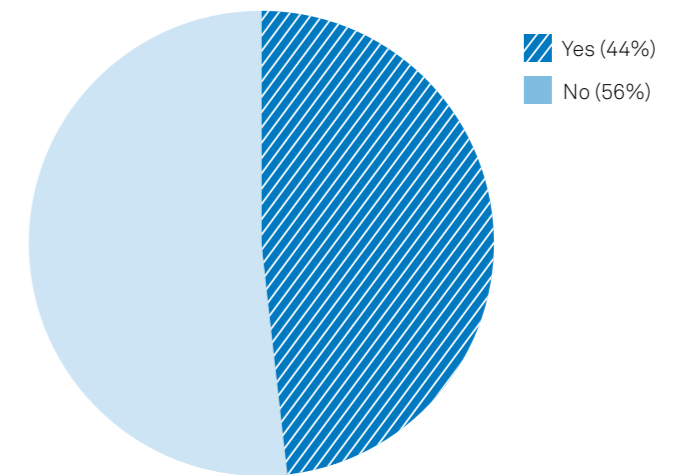
There is currently no course on CSR available in China so hiring graduates of the discipline in China or those with practical experience in NGOs, for example, is not possible. It always takes energy to drive any new business function of course. Combination of companies led locally and those led by head offices or even parent company policies. No one size fits all model but our later section on best practice maps out some of the things member companies have tried and tested in terms of how to organise things. It is worth noting here that Ningbo University is currently registering a course with the Ministry of Education which could mean that a CSR program is running by as early as 2009. CEIBS is also planning to add CSR content into its MBA program.

PERCENTAGE OF GM/CEO INVOLVEMENT WITH CSR



Next, we wanted to understand how much time the senior management spends on CSR since this is always a strong indicator of the value placed on a function. The following chart illustrates that China CEOs are a hard-working bunch with 57% of CEOs and GMs spending between 10-50% of their time on CSR.

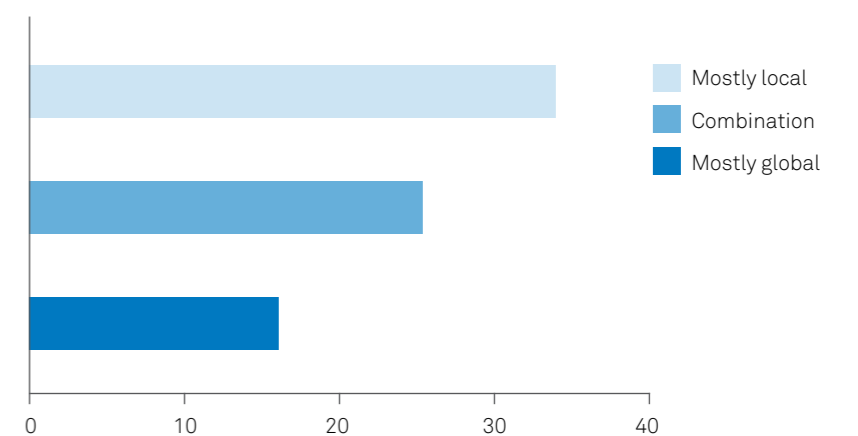
DO YOU HAVE A CSR BUDGET?



Following the understanding of senior management time commitment, how about the funding? How much and from where?

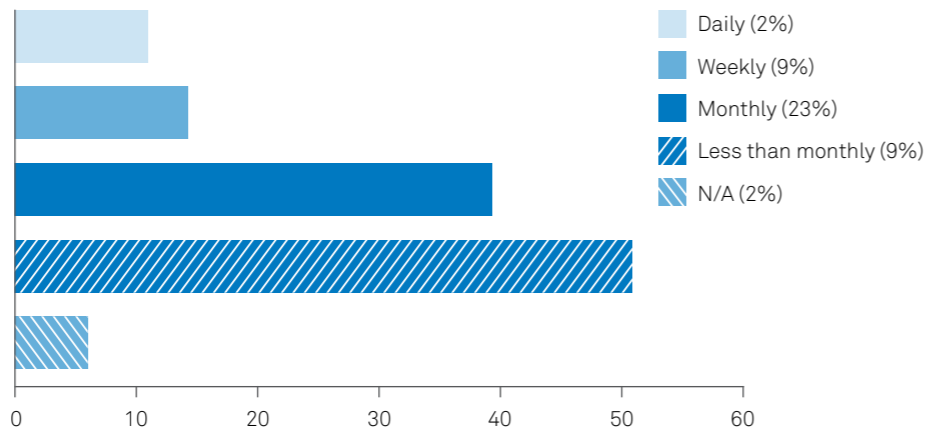
It would be encouraging, we think, to repeat this survey in a year's time when the answers would be different – more and more companies are realising that CSR is an investment and that allocating a budget formalises involvement and convinces everyone across the organisation that this is something that is being taken seriously. It tends to be smaller companies who do not have a specific budget for CSR.

IS THE CSR BUDGET GLOBALLY OR LOCALLY FUNDED?



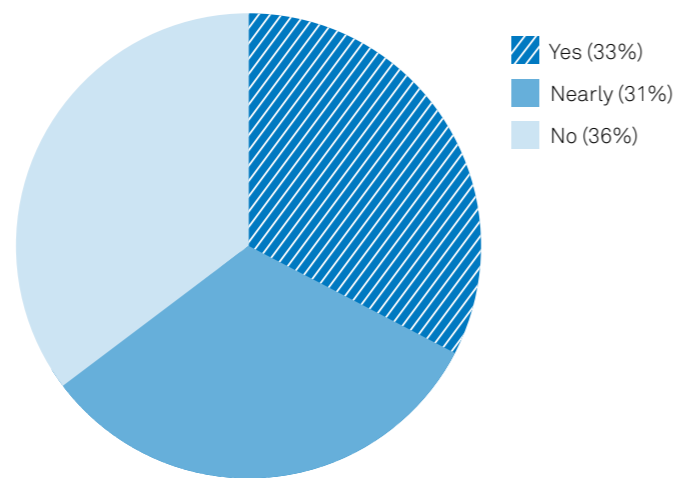
How much time and money to spend on CSR is a constant challenge. Larger companies are now looking at around 1% of operating profit being a sensible figure.

HOW OFTEN DO YOU COMMUNICATE WITH GLOBAL HEADQUARTERS ON CSR?



One of the most interesting findings of the study is that China teams appear to have huge autonomy when it comes to implementing CSR. Whilst there are some companies who are mostly driven by global headquarters (only around 12% of those surveyed), the majority are deciding their CSR involvement independently and this of course leads to scope for innovation in a market which certainly has some unique characteristics. We looked next at communications with headquarters and asked respondents to tell us how regularly they communicate on CSR. The results show, again, that there is a great deal of autonomy present with only 11% of respondents communicating more than weekly. The majority would report monthly or less than monthly on CSR. If it wasn't for the high priority placed on CSR in our question above, it could be argued that this is because CSR is not on the agenda but we know it is now.

IS YOUR COMPANY APPLYING GLOBAL CSR STANDARDS?



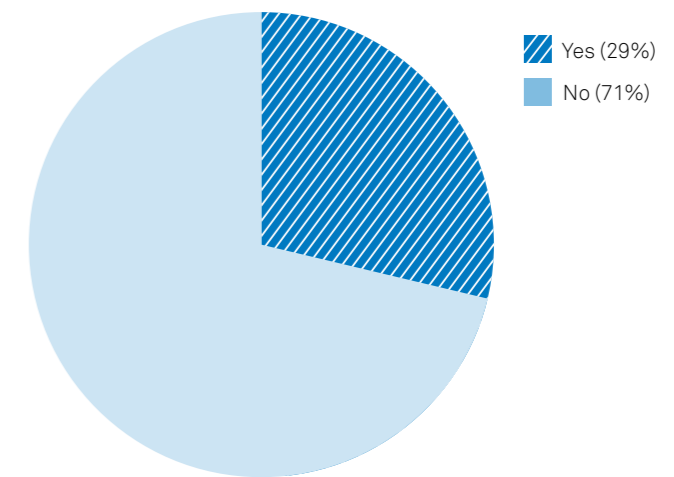
It is worth emphasising that, as with so many other business functions, the progress in China is faster than in many other areas but we are starting from a lower level. With less consumer awareness, less shareholder pressure and fewer people who understand the benefits of CSR, many managers are under pressure to bring CSR practices up to international standards but are aware that this is a tougher challenge in China than it is in more developed markets. We asked about global standards and learned that the will is certainly there.

WE LAUNCHED AN ANTI-SMOKING RULE BUT IN CHONGQING, IT WAS DIFFICULT BECAUSE EVERYONE SMOKED. WE HAD TO FIND A WAY TO BE UNDERSTANDING OF THE LOCAL CULTURE AND NOT FIGHT AGAINST THAT TOO MUCH AND ALIENATE PEOPLE. WE HAVE WAYS OF ACCOMMODATING THE STAFF NEEDS NOW – A SEPARATE SMOKING AREA A LONG WAY FROM THE SITE.

BP

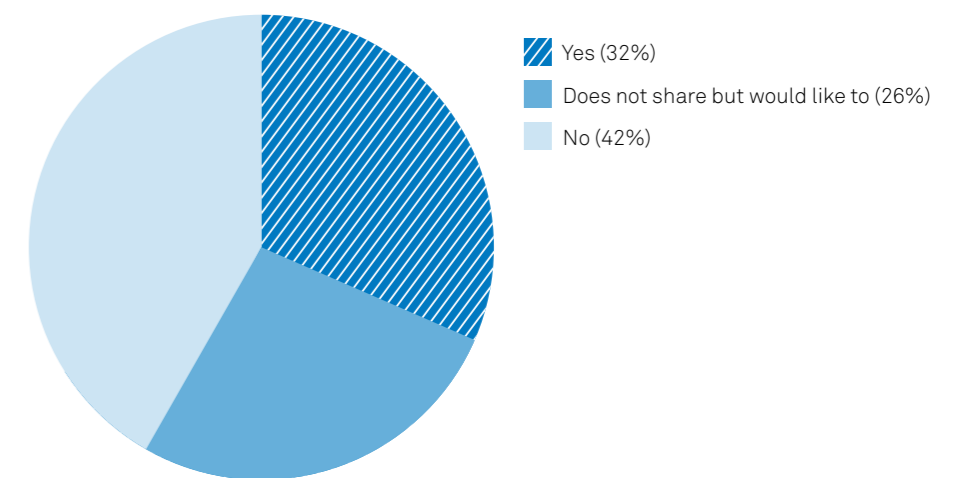
There seems to be correlation between communicating regularly with colleagues overseas about CSR and being able to assess whether or not global standards are attained. Some industries have several different sets of global standards and others none. There is a wealth of generic, global standards out there for those companies that want to benchmark and it would seem from our studies that it is perhaps more a lack of knowledge of what global standards are than not knowing if we're hitting them in China operations so perhaps a quick look at the UN Global Compact key principles (cited at the end of this report) might help.

HAVE YOU EVER CARRIED OUT AN INTERNAL EMPLOYEES SURVEY?



How do you know how well you're doing with your CSR? One method is to conduct an internal employee survey. The number of companies that said they had not conducted internal employee surveys is perhaps a bit surprising given this climate of communication enhancement in many companies. However, our explanation for this is that companies have, in the main, not conducted CSR focused surveys but that general employee satisfaction surveys would be more used.

DO YOU CURRENTLY SHARE BEST PRACTICE WITH OTHER COMPANIES?



NOW THE PROGRAMS ARE MORE SOPHISTICATED, THERE'S EVEN MORE NEED FOR PEOPLE TO SHARE APPROACHES AND OPPORTUNITIES FOR BEST MATCHES WITH PARTNER ORGANISATIONS.

MANAGER CSR, KPMG

A SPECIFIC OBJECTIVE FOR THE FUTURE IS TO STUDY HOW CSR MANAGEMENT IS OPERATED IN DIFFERENT COMPANIES.

B&Q

We asked about sharing best practice. Many companies confess to not having expertise in-house and many more welcomed the opportunity to discuss programs and policies more openly. So we're pleased to be able to present these findings and best practice as part of the sharing of knowledge in this field.

Measuring results is always going to be a challenge with the intangibles. We do know though that CSR is definitely used as a competitive differentiator in China. None of our interviewees had any doubt about that. Many local partner companies or local governments are looking for international firms that add value and CSR is one of the things that can often be used to set companies apart from local competition.

One common theme amongst all those companies with strongest CSR was that the communications channels in the company are strong. Positive climate indexes, staff feedback, online satisfaction surveys – it doesn't matter what it's called, these methods of assessing how good your team is feeling are often directly affected by what CSR is being carried out.

So, now that we understood where to find CSR in the organisation and who is delivering it and where the funding comes from and what some of the progress is, we started to look externally. There's a strong feeling that CSR is already being used regularly as a competitive differentiator so the question is now how everyone leverages that. How and how much and where you talk about what you do in this field is where we find some bones of contention. Some members believe that moving towards making the business sustainable and ensuring that staff are fairly treated and supply chains are closely monitored to check that they are in line with international standards and giving something back to the community should be all in a day's work for all private companies and that this is nothing to shout about. Others say, in a competitive world, where differentiation is key, why not shout about it. This will depend on many factors. A company who talks only about its community programs or talks too loudly, too often, is likely to get a reputation for being 'all talk and no action'. There has to be a balance and if you're talking about what you're doing, expect others to take an interest and to want to know some of the measurable results of your efforts.

In any case, it is undeniable that having strong CSR is a great way to make your customers, (both in B2C or B2B businesses), feel good about themselves when choosing your product or service.

Finally, we looked at the options for delivering in-house programs or outsourcing to a CSR or PR consultancy. Most felt that keeping this function in-house works best for the moment.

IMPLEMENTING CSR BEST PRACTICES IN CHINA

So what have we learnt? One of the best things about our interviewees is that tried and tested best practice and implementation suggestions flows from all of them. We have put together easy-to-use checklists of the best ways to design and execute a project which are located in the appendix for you to refer to as you strengthen your own CSR efforts. This section profiles the unique characteristics of CSR implementation in China and is divided into the following sections:

- / Market Opportunities
- / The Role of Government
- / Tax Environment
- / Health & Safety
- / Partners
- / Media
- / Community Programs
- / Employee Relations
- / Legal Compliance
- / Staff Involvement
- / Recruitment & Retention

MARKET OPPORTUNITIES

Most respondents feel that CSR has been on the agenda in China for a number of years now and that at national and provincial level, government bodies are very aware of the issues involved.

Many Chinese companies would look to an international investor or potential partner company to introduce new ideas around CSR as part of what they bring to a local area or a JV partnership. International companies have a fantastic opportunity to influence new government policy in China.

THE ROLE OF GOVERNMENT

Government plays a bigger role in the development of society in general in China. If you don't have the right relationship with government, core areas of your business can be negatively affected. CSR can be a fasttrack to improving that relationship. Since government relations forms a part of what every business has to manage in China, whether large or small, interviewees shared examples of where CSR has helped smooth things in this area:

"Our global chairman was in Shanghai last November and met with Ministers in Beijing and the vice mayor in Shanghai. In all the meetings, people said we were known because of our Water of Life program and they know that we invented 'responsible drinking' in Chinese. CSR fast-tracks your company to strong government relations in a country where without it, we couldn't do anything." Diageo.

"One of the reasons that the local authorities in Danyang are so pleased to have us is that they believe we will bring international and modern standards. Certain aspects of the labour law to do with minimum wage and so on are not respected by all companies but GKN sticks to the rulebook very closely." GKN

"Last week, our President visited CBRC Head office in Beijing and the meeting was completely side-tracked by talking about our brochure on financial planning when we were supposed to be discussing core business issues." HSBC

TAX ENVIRONMENT

Tax benefits are not available here to companies through CSR as they are in other markets and although we asked our interviewees about this, very few seemed to be engaged in active lobbying for any change in this law. Only certain NGOs are able to offer tax deductions on donations made. Unlike in the US and Europe where tax deductible giving is now the –'norm', in this respect, China has some catching up to do.

WE PREFER TO WORK WITH SMALL ORGANISATIONS BECAUSE THEY TEND TO BE MORE ABLE TO GIVE YOU THE TRANSPARENT PICTURE.

S2M

THERE ARE AREAS OF DOWNTOWN SHANGHAI WITH BIG NEEDS. CAPITAL EIGHT

PARTNERS

Working with community partners and local charities also throws up some challenges. At the moment, there are no clear mechanisms in place for tracing money donated through the official government organisations so that if you are keen to donate to a particular cause, it can be difficult to ensure the money is directed there. Charity partners should now be able to give you very clear breakdowns on project costs and funding streams and should be happy to provide you with updates on the project at agreed intervals, particularly if you are a major donor. If they can't, perhaps it's time to work with one of the many that can.

top tip ✓

High credibility with partners is important so bear in mind that only certain charities and NGOs are approved in China. If in doubt, contact the Shanghai Charity Foundation as a reference or ask to see the business license of any NGO that approaches you for support.

MEDIA

In China, we are lucky to have a press that is more willing than its counterparts in the West to write good news stories. This is a big advantage for company communications departments operating in China. It is worth mentioning however, that Chinese media will not accept press releases from corporations in China on a purely CSR theme. This profiling in the media can lead very quickly to a great sense of staff pride in what the company can achieve and this can have a hugely positive knock on effect in other fields of the business.

top tip ✓

Use the fact that the cynicism that is so often found about business in the media in the West, is less apparent in China – for the most part, local media will be supportive of efforts by international companies to improve the communities they work in.

COMMUNITY PROGRAMS

For the most part, member companies in China are involved in community programs in China although some of the work that is being done by larger companies in China is having a regional and even international impact.

Since there are an overwhelming number of community projects now operating across China and with improved availability of information access, it can be hard selecting the project that's right for your company.

top tip ✓

Don't let inertia set in is the advice from our interviewees and those who've done it before. If you are delaying more than 2-3 months because you haven't found the right project yet, get started on something small that doesn't require too much of a commitment first just to set things in motion.

HEALTH & SAFETY

One key aspect of implementing in China is in the field of health and safety. Many interviewees noted that they need to check more rigorously and tell employees more frequently about key issues than they would in more developed markets. As GKN point out, "In terms of health and safety, we expect the same levels in China as we do internationally. We check more rigorously in China and we are more vigorous with telling people how to do it."

top tip ✓

Make reporting of the CSR improvements go direct to the CEO. Accidents in the workplace should be reported to the CEO. If people feel the top guys are going to hear about it, it increases motivation.

WE DO A LOT OF MATCH FOR MATCH FUNDING, SO IF A STAFF MEMBER GOES AND RUNS A MARATHON AND RAISES MONEY, WE WILL MATCH THAT.

AMEC

EMPLOYEE RELATIONS

CSR is all new in China and most of the companies surveyed have seen the biggest increase in health and safety measures, sustainability and community impact programmes only in the last 2 years. New staff, particularly those coming in new to multinational companies, may need the concept explaining to them at a more basic level. Citing examples of other companies and clearly explaining the benefits will help.

Direct benefits of CSR:

- / Increased moral
- / Differentiates as an employer
- / The 'feel-good' factor amongst employees
- / Pride in the company
- / Show long-term commitment to China
- / Improved relationships with local and national government
- / Positioning as a market leader
- / Access to opinion formers in the industry
- / A reason to shout about what you do
- / A head start on your local competitors who are unlikely to have developed such advanced policies and programs ...(yet!)
- / Growth
- / For companies who want to use best practice in everything they do, CSR should be no different
- / Reputation is golden
- / Innovation results from working with community partners

SMES AND CSR

LEGAL COMPLIANCE

Legal compliance in China should probably be seen as a start point for international companies not the end goal because the regulations are not yet as crystallized here as they are in other markets. There is a requirement by law that companies consider the social and environmental impact of their actions but as many international companies can testify, this requirement is not necessarily enforced as strictly with Chinese companies as it might be.

top tip ✓

Use this as a competitive differentiator. The areas where international companies have a clear edge over Chinese competitors are being rapidly reduced but in the field of CSR, it is likely that international companies' reputation for minimising the negative impact on the community and the environment will be maintained for some time to come.

STAFF INVOLVEMENT

In China, some companies we talked to are aiming for 90% employee participation in volunteer schemes. If you are managing to engage a mixture of junior and senior managers and as a whole, the company is spending more resources on CSR this year than last year, that's a good measure of the success of the program. The other important measure is employee feedback. Ask on a regular basis for your team's input and suggestions and comments on the work you currently do in this space and for suggestions of what should be done next. In a hierarchical society such as this, CSR can provide a refreshing opportunity for junior staff to excel and work side by side with senior partners or managers.

top tip ✓

Family is important in China. Use outdoor projects that can be a means to further educating your employee's children. This means people are more likely to get involved since there's a benefit for the whole family. "When we started to plan CSR events that encourage family participation, all of a sudden, these events become really popular. Planting tree days, outdoor projects that have some means to educate their kids are popular." AstraZeneca

RECRUITMENT & RETENTION

The talent and title war in China is affecting many businesses. Being a good corporate citizen adds to your armour in the rush to recruit good candidates for your top jobs. In China, family plays a more significant role in many young people's lives than it does in the West. Just working for an MNC is no longer enough but a large number of the 20-something talented graduates that you may be recruiting will still live at home and if employees are able to feel proud of what their company is doing in China in front of their parents and close family, this helps keep them with you.

For SMEs, there are the usual resource issues but The British Chamber's SME members set themselves apart by proving that even the smaller companies can produce hugely effective CSR initiatives. Some of their advice on how to do it follows:

- / Don't be nervous about picking the cause – sometimes a personal connection helps keep the project on track
- / Many companies have their CSR policies posted online or in company reports so use this publicly available inspiration and tailor it to fit with your size/resources when you're designing your approach
- / Make the most of community involvement – it can really help to give a business a character and is also a great help when building a new team
- / If financial donations seem a way off with your current balance sheet, get involved by using any down time to offer in kind support for local community partners
- / Refer to your CSR policy in your e-brochure or company presentation
- / Talk with friends in HR departments of larger companies to establish equal opportunity policies
- / Remember that any broadening of your community network has a business benefit
- / Recycle all paper
- / Print on Quick Print
- / Purchase furniture from companies with published environmental policies
- / Donate any unused office furniture or equipment to charity
- / Set up a Best Employee Award with a small financial bonus and a focus on CSR involvement
- / Have a quick look through the media to see which writers and commentators write regularly on sustainability and CSR and then befriend them!
- / Since you may not have the resources to implement thorough checks on your community or charity partners, use more gut instinct about the way they operate and how transparent they are and build relationships over time. Start slowly.

QUICK WAYS TO IMPLEMENT TODAY

- / Put 'don't print this email' messages on the bottom of your emails.
- / Swap the pile of new paper by the side of the printer for scrap paper.
- / Cancel orders of notebooks and use the scrap paper torn in half and stapled instead.
- / Design a staff satisfaction survey including questions about CSR and post it on your website.
- / For manufacturers, start all management meetings with safety first.
- / Put in place some yearly targets for gas, water and electricity consumption.
- / Ask staff what local community project they'd be most interested in.

CONCLUSIONS

THE NEED TO ACKNOWLEDGE CORPORATE SOCIAL RESPONSIBILITY AND TO HAVE A READY ANSWER PREPARED FOR THOSE WHO ASK WHAT IS BEING DONE BY YOUR COMPANY IS NOW ACUTE FOR ALL SENIOR MANAGERS, REGARDLESS OF THEIR DEPARTMENT OR RESPONSIBILITIES. THE TOPIC IS A TALKING POINT FOR A WIDE RANGE OF AUDIENCES AND STAKEHOLDERS FROM SHAREHOLDERS TO VENTURE CAPITALISTS AND FROM CHINESE GOVERNMENT TO COMPETITORS.

91% of our respondents believe the importance of CSR will increase in future and 68% have concrete plans in place to increase the amount of management time spent on CSR in the coming year. Only 1% of our respondents feel that management time will decrease.

Whilst this commitment is encouraging, policies and standards are constantly evolving and there is certainly room for better understanding of the international policies and regulations on the part of some companies. Having a team that is aware of the key issues is certainly helpful in communicating and executing your own company's programs and policies. In addition, global reporting encourages the development of standardized practices and is beneficial in injecting a sense of the bigger picture to local operations. We sensed a feeling among companies that whilst we should be pleased to have CSR programs and policies, everyone should persevere in ensuring the future of these initiatives is put on the Board room agenda. Only in this way, will companies continue to grow.

CSR is set to remain of key importance in the business environment globally. Specific to China, given the competition for talent, employee satisfaction is likely to be used increasingly as a measure of success of CSR as increasing resources are diverted to the cause of maintaining top talent and as that top talent is more and more motivated by pride in their company and other intangibles as well as by financial rewards. Employers need to differentiate themselves and retention brings significant cost savings after all.

At a broader level, it adds much perspective to the debate about CSR to consider the growth of this 'industry' in the context of China's own development. Certainly, a profitable or competitive business climate and wealth accumulation, are necessary preconditions to initiate CSR. Naturally, the relationship between corporate social responsibility and economic growth is one that is much studied and in many ways, China is paying more attention to CSR than might be expected from a country at this level of GDP per capita and disposable income but China's size, means it attracts and deserves special attention from the international community.

CSR has traditionally been seen as a luxury for successful companies in developing nations. It is only very recently that any of China's regions have been considered high income on a global scale and therefore only recently that China's government has come under pressure to deliver on the development of CSR. With the growth of the middle class and a more sophisticated consumer view of companies and their policies, successful businesses are watching carefully to ensure their policies reflect the desires of their consumers and markets. We believe that in China, businesses have a unique opportunity to impact consumers more than they might in other more sophisticated consumer markets.

In many other countries, companies work closely with the NGO community but this is true to a lesser extent in China where particularly foreign NGOs have a hard time registering and operating. The continued opening up of this business sector in China will give businesses great depth of understanding of the key social and environmental challenges faced here and where best business is able to assist. At some stage, the Chinese government will ease restrictions on the 'civil society' section of business and this move will represent a significant departure from past history.

To date, the Chinese government has used a combination of 'soft touch' incentives to encourage better reporting and heavy handed pressure such as the 'black list' of enterprises which, because of their poor polluting record, may not be granted commercial bank loans. We are all aware of the Chinese government's ability to quickly and effectively introduce sweeping new policies in other areas of business (the labour law is a good example) so the world is watching expectantly to see just what the most populous nation can achieve in the CSR space.

We think the future of CSR in China will involve consolidation of charitable and community partners, more specialisation from companies in terms of the projects they are involved in, a bigger base of specialised CSR practitioners with a better network for sharing information and more focus on this issue for senior managers. We predict a move away from ad hoc donations to longer-term partnerships in the community building area and expect Chinese competitors to increasingly use CSR practices as a competitive differentiator. This will ensure international businesses here are kept on their toes. The Chamber will continue to closely monitor the situation and to update its members on the key issues.

We learned a great deal from this study and hope that you have found it a useful read. We welcome comments and suggestions for future CSR related publications and events. These should be communicated to The British Chamber of Commerce Shanghai.

APPENDIX

One of the best things about our interviewees is that tried and tested best practice and implementation suggestions flowed from all of them. We have put together easy-to-use checklists of the best ways to design and execute a project and hope you refer to these as you strengthen your own CSR efforts.

THE DESIGN

- / Look for an issue where it has a role to play better than other businesses could. Look for areas in the community where you have a unique ability to make a difference.
- / Make it close to your business. There is no one model that fits all.
- / Consider your stakeholders and invest in CSR that will strengthen or consolidate or move relations with these parties forward.
- / Once you have decided on what to put your energy into, write it into your vision statement so that it starts to define the company.
- / Tie in local programmes as much as possible to those happening elsewhere in the world.
- / Check what's being done by companies in your industry that have been in China longer and emulate. These people have done the trial by error part for you and CSR should be considered a win-win game.
- / Try to cater to the natural personality of the people you have on your team who will be involved in driving the initiative
- / Design with a real-world impact in mind. The benefits should be clear for everyone to see.
- / Take guidance from company-wide guidelines or policies but drive the implementation locally. Start on a really local level if you can since impacts are then more quickly felt.
- / Consider building in an element of disaster relief (maybe a fund) into your program so that if a disaster does hit in an area where you have operations or in China, you are immediately able to act quickly to make a donation to relief efforts.
- / In terms of straightforward charity donations, work with a figure of around 5-10% so that at least 90% of your CSR contribution is made through targeted community programs or time spent looking at the sustainability of the company.
- / Don't play the hero! Once you get into tackling some of the greater challenges in community programs, design a project with 3 partners – you, a local charity partner and then a local media group or even government department. This gives the project stability.
- / Understand that the majority of benefits from CSR are intangible. Nobody can measure it effectively although cost savings from reduced energy consumption are clear.
- / Whilst you must have some form of reporting built into the design, this must be tailored to different stakeholders. Think first of what your stakeholders (customers, partners, suppliers, staff, shareholders) will want to see in terms of results and then design a program that can deliver.

THE EXECUTION

- / Get momentum – stick to a policy or project once you've decided on it.
- / Let your team get a real feel for the project or charity or initiative – if you can touch it, it's a lot more real.
- / Open discussions with Chinese partners on the reasons for your sustainability goals or health and safety in the workplace regulations.
- / Match employee time or cash donations to encourage participation. This means that the ideas for how to raise money and what projects to support are generated by individuals at all levels of the company.
- / Identify opportunities to allow implementing staff to train with others and to share best practice.
- / If your team is going to be out for the day working on a community project, fund their lunch!
- / Practice implementing CSR and don't be afraid to learn from trial and error a bit. It's hard to learn by reading books on the topic.
- / Details are important – one interviewee suggested starting with the hygiene standards in your own staff canteen.
- / If you find yourself flogging a dead horse after all of this, give up and re-design the strategy because it may just be that the strategy doesn't fit what you're doing or who's doing it for you in China and if that's the case, it's better to quit early than waste time trying to convince people to get involved when they're reluctant.
- / Refuse other projects that approach you if they don't fit your requirements. You can't do everything and it's better to focus.
- / Projects can snowball so be aware of and clear with partners on where the end of your funding stream or time commitment comes.
- / Work hard to not let bureaucracy kill the enthusiasm on projects.
- / Lead by example – if the CEO or General Manager is involved, others will want to be too.
- / Sales people naturally enjoy interacting with people so start your new program by getting your sales team involved. They are used to being the face of the company.
- / CSR newsletters give all staff opportunity to feel involved.
- / Partnership is key but these partners have to be well researched and monitored.
- / Get an itemised billing of where any monetary donation goes. Make everything transparent.
- / Measurement is difficult except with monetary donations but a good aim is to do more this year than you did last year.
- / Set targets. This leaves a feel-good factor for employees.
- / Carry out an annual staff satisfaction survey to make sure everyone is happy with the environment they are working in and include a CSR aspect.
- / There is often instant payback from becoming a better corporate citizen so don't be surprised if you start to feel good within 6-9 months of setting programs in place and also don't be surprised if your CSR meetings are some of the liveliest company meetings you attend.

UNITED NATIONS GLOBAL COMPACT

The Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- / The Universal Declaration of Human Rights
- / The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- / The Rio Declaration on Environment and Development
- / The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

HUMAN RIGHTS

- / Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- / Principle 2: make sure that they are not complicit in human rights abuses.

LABOUR STANDARDS

- / Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- / Principle 4: the elimination of all forms of forced and compulsory labour;
- / Principle 5: the effective abolition of child labour; and
- / Principle 6: the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- / Principle 7: Businesses should support a precautionary approach to environmental challenges;
- / Principle 8: undertake initiatives to promote greater environmental responsibility; and
- / Principle 9: encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- / Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

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CORPORATE SOCIAL RESPONSIBILITY

BEST PRACTICE FROM CHINA
SEPTEMBER 2008



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