



CORPORATE SOCIAL RESPONSIBILITY IN CHINA



COLLECTIVE
RESPONSIBILITY

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EXECUTIVE SUMMARY

| FOR other firms, who recognized that a business with a core of responsible business practices was far more likely to be insulated from the risk of government policies (and enforcement), and far more likely to be poised for growth as new markets developed, they have undertaken a different process. A process where being a responsible company is core to their mission, and that involves the entire organization.

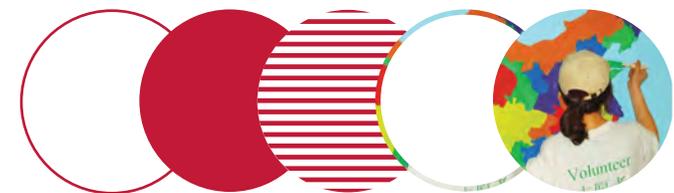
Through this guide we will help leaders understand some of the key issues to pay attention to, how to create effective strategies, and provide the tactical tools that will enable firms to take their (first) steps forward.

Specifically, through this report we will address the following topics:

- 1 HISTORY OF CSR IN CHINA**
- 2 WHY SMES SHOULD INVEST IN CSR**
- 3 HOW TO CREATE A CSR STRATEGY**
- 4 THE 5 KEY PROGRAMS OF AN EFFECTIVE CSR PLATFORM**
- 5 MEASURING AND REPORTING SUCCESS**

With each readers own business models, industry climates, and stakeholder needs being unique, we have paid attention to make our recommendations on strategy, programs, and tangible, clear, and actionable in a way that is not prescriptive. It is a guide that reflects our own work in assisting others develop strategies, as well as in our own work to build our own organizations. As such, view the content and case studies as recommendations with the widest breadth of application.

If after reading the guide you find yourself looking for more targeted program specific information, we have included a list of reports, organizations, and programming guides that we hope will help you take that next step.



WHY CSR FOR SMES

| FOR small to medium sized enterprises, many of whom are working to make their market with limited resources, taking the time to focus on developing and executing a CSR strategy may not be something that is seen to have “value”. After all, with a commonly held belief that CSR is a “tack on” to daily operations and focused on rounding out a corporate image with something “cute and cuddly”, what reason could a small to medium sized enterprise have to take on such a task.

Through this guide, it is our hope to change that mindset. To show you the reader, executives at small to medium sized enterprises, that this could not be farther from the truth. That while a misaligned, or misguided, strategy can certainly make a firm’s efforts and investments look disjointed and fake, a strategy that is developed and executed with authenticity can bring significant benefit to the firm. Benefits that may start with efficiency, but over time through the development of a culture and core of responsibility, can lead the firm into market opportunities it never though existed.



| SPECIFICALLY though, there are “6” reasons why an SME in China should look at CSR not as an “add on”, but as a strategic measure that will benefit the firm:

1

RISK MITIGATION/COMPLIANCE

Creating a firm that is more family nucleus than profit center, and that looks at itself as part of a wider community when building the organization, firms who are able to effectively create a strategy that is engaging to all stakeholders, and effect real change, will find that the culture of the firm itself becomes the competitive advantage. Employees will enjoy working in the firm, customers will enjoy purchasing goods and services, and external stakeholders like NGOs, media, and government agencies will also take notice.

2

ENGAGEMENT

For those firms who are unwilling or unable to change their business model in a material way, but want to increase ties between internal and external stakeholders, CSR is a great way to create engagement. It could come through a donation, or day of volunteering, but at the end of the day (program) the company would have spent a little time and money building bonds, and that feels good.

3

EFFICIENCY

Internally focusing efforts on addressing inefficiencies in people, product, and process, is also a great way to improve the firms stability while at the same time increasing the level of “responsibility” within the firm. For firms that are interested in moving past the basics, this can turn into a competitive advantage as products and services are redesign, new materials are leveraged, and customer loyalty increases.

6

LEGACY | For many founders, legacy is an issue that typically comes once the firm finds stability, its markets are made, and its employees are happy. Then they can think about the purpose of the firm, of their legacy, and it is here that having a core of corporate responsibility will provide a level or reward that could not be found in the market or through an award.

5

MARKETS | For those firms whose leadership, and staff, have taken up “the cause”, the ability to leverage CSR as a market opportunity certainly exists in China. Creating technologies that clean water, clean traceable food, provide education or nutrition to rural students, and assist the elderly maintain their lifestyle are all markets for those who take up the challenge to understand, and address, the need as a business.

4

CULTURE | Creating a firm that is more family nucleus than profit center, and that looks at itself as part of a wider community when building the organization, firms who are able to effectively create a strategy that is engaging to all stakeholders, and effect real change, will find that the culture of the firm itself becomes the competitive advantage. Employees will enjoy working in the firm, customers will enjoy purchasing goods and services, and external stakeholders like NGOs, media, and government agencies will also take notice.

INTRODUCTION TO CSR IN CHINA

REGARDLESS of firm size, CSR in China is no longer a tack on to a business model that operates a local plus standard and sees a donation to the mayor's favorite cause as CSR. This is largely due to the fact that for the last 10 years, large multinational firms have spent large sums on programs that were meant to benefit the brand more than to bring positive impact to the cause, and this has left many external stakeholders skeptical.

All the more reason for executives and managers at small to medium sized firms to heed the warning above, and look at CSR as a framework that builds a stronger firm through its products, processes, and people.

On a fairly regular basis, the true value of CSR to a firm is debated. It is an interesting topic perhaps because there is no answer, and while there are certainly more than a few studies showing correlation between a firm with a strong brand image impacts its stock price, and the benefits of CSR internally to a firm, the evidence still remains largely anecdotal and reaching. Particularly when applying the benefits across border.

First problem with CSR, is that the term itself has no clear definition or application. It is everything, and nothing. For one firm it is a day of volunteering and a coat donation program, for another it is ensuring that the firm's employees are protected from harmful activities in the

field, while for another it may be a focus on diversity and inclusion or a scholarship program to disadvantaged youth.

With the topic of CSR, Corporate Social Responsibility, many firms have struggled to find a definition that works for them in China. China is a large country, with vast needs, but at the basic levels, a "responsible corporation" was one that obeyed the laws, provided as many jobs as possible, paid taxes, and made a profit (so that the previous activities could be sustained). As a result, up until the early 2000s, it was the manufacturers who had established workshops in China that were seen as leaders. They were the largest investors in China, they often invested in areas where jobs were scarce, and their profits help fund numerous public works projects that would be critical to the long term development of the area. For these firms, the primary driver for any activities beyond that was often in the form of international pressure on the firm over their China based supply chains, and as a result, foreign manufacturers operating in China often had better reputations for being "good" companies.

For many years, it was a topic associated with philanthropy only as brands (foreign and domestic) would leverage a philanthropic activity for their own publicly needs. A mayor would be arranged, the media would be invited, a check would be presented to a recognized government charity, and that would be it.

There were clear rules about giving: how much to give, who to give it to, when to give it, who would be in attendance, and which camera to smile at. At times, there was little expectation of how the money was spent by the "donor" as their return was directly tied to the press and connections made during the event, not the impact of donation itself. All of which changed in 2008 when a 7.9 earthquake rocked the Sichuan province, consumer brands were launched into the spotlight as they competed to give the largest donations.

More widely though, with rise of per capital incomes and livelihoods, the expectations of firms were also increasing. Expectations that often led to firms understanding that their previous responsibilities to create jobs, pay tax, and donate money were no longer enough. That, to remain compliant in the eyes of government, consumer, and citizen, investments in consumer safety, environmental protection, workplace safety, and governance would also need to be made. Investments that years earlier were seen as having no, to questionable, return to the brand, but the enforcement of laws, aggressiveness of the media, and the increased expectations of customers changed that. The value proposition was becoming clearer for firms large and small, with perhaps a bit of a push being required for SMEs from their MNC suppliers and buyers.

Which is a dynamic that has continued to move the practical definition of CSR forward, into a more mature space, and requires that

firms (particularly SMEs) think about the CSR programs strategically. A dynamic that has been further catalyzed by the fact that China's economy has developed into the world's second largest, and its citizens, consumers, and government expect more from firms. They expect that in addition to paying taxes and being a job provider, that they (as firms) are "good". As we have seen in recent years, China's ability to manage stable growth and create a balance between economy, environment, and society has proven limited; nearly every day there are reports of another problem. This has the effect of creating a wider public awareness.

The environmental failures, melamine milk scandals, labor safety issues, and high-speed train crashes featured in recent headlines are just the tip of the iceberg. But as these problems come to light they have begun to create a new source of pressure to address the changes. And this pressure is coming from the bottom up versus the top down.

The catalysts for change are often very different than those found in the west, where the most effective messages are typically visual images of global events and impacts. In China, it is more personal, more tangible. Environmental and safety disasters are occurring in individuals' own backyards, and this is moving people to demand more from their leaders. Economic development is bringing financial stability to many, and with this financial stability fewer citizens are willing to overlook the imbalances in their society.

A definition that is often personal, ambiguous, and will shift based on the industry, but for the purpose of this report, we have focused on 5 key areas of concern:

1 WORKPLACE

Internal programs focused on employee wellbeing and job satisfaction

2 GOVERNANCE

Internal program meant to reduce risks of corruption / abuse in the firm

3 ENVIRONMENT

Developing process and programs that minimize impact to environment

4 COMMUNITY

External programs that link firm & community through volunteering & philanthropy

5 CONSUMERS

Providing products/ services to consumers that are safe and live up

For many firms, compliance in all these areas has been "the goal", and a difficult one at that, but for SMEs, whose resources are limited, it is important for leaders to look at how the tenants of CSR can be embedded into the systems that exist within their organization.

For firms that are ahead of the game, and have invested the time to develop and align their strategies to economic, social, and environmental concerns, this will ultimately be to their advantage as their risk profile is reduced and opportunities for growth present themselves.

If you are the leader of an organization in China, foreign or Chinese, the term “Corporate Social Responsibility” or “CSR” are likely to have come across your desk, and if you are in the Human Resources or PR/ Communications department, then these terms should already be familiar to you.

It is a topic, a tactic, that many of the largest firms have been promoting through regular releases of CSR and sustainability reports, government have been pushing through top down regulation, and conferences are devoted to. Yet, for many firms, a gap exists between the recognition of those terms and in understanding the how and why of developing a “CSR Program”. That, with the passing of regulations in China specifying the need for firms to release CSR reports, employees looking for their firms to donate in times of crisis, and consumers looking for firms to ensure product safety and reduce carbon footprints, firms are no longer in a position of being able to “control the message”, but have to develop programs that manage the expectations of a wide range of stakeholders.

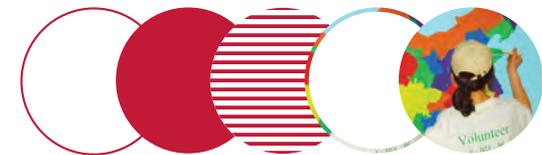
It is a process that was once largely characterized by firms, and their CEOs, donating sums of money in public forums. A process that was largely media fueled, and meant to show (externally) how much a firm is “engaged” in the community. How much they “care”. But as governance scandals involving bribery, product recalls, and environmental spills occurred, the lens changed focus externally for many firms.

At the same time, while those donations were a source of pride for many internal to the firm, donations were not productively engaging employees. Thus, managers were now faced with increased pressure to include their employees in programs as well. It is a time where “philanthropy on demand” is becoming “engaged programming”, and firms who are looking to make the adjustments are sometimes left struggling.

At the organizational level, what were once global programs, which did not consider the local needs of the organization, are now localizing. This is in part due to the fact that China is now a source of profits, versus being an export production base, but it is also a result of the need to engage local managers in these programs to ensure local issues are met and that local managers are able to maintain the sustainability of the programs. So, for these firms the highly centralized CSR program is now becoming decentralized, which brings in a higher level of local ownership and engagement.

Matched to this change is the change in stakeholders, and more importantly, the increased level of stakeholder expectations. Internal and external, stakeholders in China are perhaps a firm’s greatest catalyst as their ideas shift the strategy of a firm, and in the last 5 years it external stakeholders who have become the most difficult for firms as regulatory bodies, media outlets, consumer groups, and environmentalists have all begun to focus their efforts in a way that exposes economic, social, and environmental weaknesses of the firm. Catalyzed by growing wealth, the speed and anonymity of technology, and a general understanding that regulatory efficiencies are having sometimes catastrophic impacts on local communities, the power of these groups will only continue to grow, and their influence over the strategic decisions of the firm will grow as a result.

So what is a firm to do? How can a firm, who previously was able to control the message, and insulate itself from stakeholders, move forward. More importantly, why should firms embark on developing a CSR program? After all, while there are maybe some nails who are met by the head of the hammer, many firms are left to continue business as usual.



CREATING A CSR STRATEGY

BEFORE spending the time & money to develop the first program, small to mediums sized firms need to focus on developing a common understanding of goals & expectations. Yes, there are times when an ad hoc program can be (and should be) developed, but without a common understanding of focus, capacity, or outcome, the efforts will likely end up fragmented and without tangible return. Investment that firms with limited resources, financial and otherwise, cannot afford to waste.

Many firms fail to understand that CSR is simply a term for a process whereby the firm becomes aware of an issue they are exposed to, engages as an organization (leadership first), builds capacity for change (reduction of risk or positioning for opportunity), and then proceeds through various stages of executing and scaling the strategy. It is not simply volunteering, nor is it giving money. It is developing a wide scope of understanding around their value chain as a first step.

For SMEs developing a CSR strategy is one that can (and should) be seen as something for the whole firm to engage in, embed into the core values of the firm, and will make the firm better as a result. A strategy that not only leads to a stronger firm image, but a firm whose stakeholders are more engaged, finds its business risks are mitigated, and has a better understanding of market needs.

“MANY HEADS OF SMES, ESPECIALLY ENTREPRENEURIAL FOUNDER/OWNERS, ALREADY HAVE MUCH OF THE “CSR SPIRIT” — THE INSTINCTIVE UNDERSTANDING OF THE IMPORTANCE OF RESPONSIBILITY AND RECIPROCITY IN THEIR BUSINESS DEALINGS - AND HAVE THE CAPACITY TO JOIN THE CSR MOVEMENT WHEN THEY BECOME AWARE THAT ITS GOALS AND METHODS APPLY TO THEM.

SMEs: Using CSR to Achieve Sustainability, Carolyn Schmidt

I TO develop a strategy that can (begin to) accomplish the above tasks, firm executives need to consider the following five steps:

1 MOVE PAST AWARENESS TO KNOWLEDGE

I HAVING more than just the basic understanding of an issue is critical to the process of developing a successful program. At the very minimum, donors need to understand the history of the problem, the players, existing programs, and what are considered the most successful models. The idea is to have the greatest understanding of the problem, and where help is needed most, BEFORE engaging potential partners or deciding on the level of engagement.

To begin this process, begin with a value chain assessment, and to understand where the firm is exposed to the risks and challenges China faces with balancing the needs of the economy, environment, and society. Particularly those where their own industry, be it suppliers, retailers, or consumers, are feeling regulatory or market pressures that will impact the firm over time.

While perhaps the solutions to issues faced are larger than any single firm, particularly an SME, starting with this step will help provide the foundation for a strategy that is knowledge based and programs that effectively address those concerns by reducing risks or identifying new opportunities.

In creating this knowledge base, which will be critical to developing future strategies, programs, and engagements, there are a few things that a firm should look to understand well:

- 1 What is the source of the pressure, and what are the implications should the system go unchecked?
- 2 Who are the key stakeholders. Who is in a position to make decisions, and what will force them to do so. Who is being negatively impacted, and what are their likely actions in response
- 3 When a correction is made, what will be the impact to the industry (or firm), and what is the risk (or opportunity) that will be present.
- 4 What risk does the firm itself face within its supply chain, internal stakeholders, or consumer base?

2

DEVELOP A CLEAR STRATEGY

FOR many large firms who are looking for a program to participate in, the strategy can have roots in several places, the C suite, the PR Department, or the HR department, with each having different reasons/ angles for wanting the program. Often developed with the firm in mind first, and how to either engage internally or externally, the strategy for developing a program can often leave the impact of the program diluted.

For SMEs through, this strategy cannot be developed or managed in a similar way if it is to be maintained over a long period of time. It needs to be a strategy that cuts across any and all departments, and includes executives and staff equally when being developed, executed, and rewarded.

Thus to ensure that the program itself is given the best opportunity for the long term, and the impact to the partner is greatest, it is important to develop a strategy that balances the equation between the needs of the community (as identified through the knowledge building process) and of the firm (which should be focused on fomenting engagement and leveraging the capacity of the organization).

A few things to keep in mind when developing a local strategy:

- 1 Create locally relevant programs that can be over time embedded into systems
- 2 Build capacity within local employees, partners, and organizations that build a positive feedback loop between the firm and critical stakeholders
- 3 Develop a strategy, and programs, that are aligned with the firm's core value proposition and look to increase the value of the core with these programs.

Once this is complete, then the firm can begin understanding how best create programs, in which areas of the business, and through which partners to have the most effective impact.

3 IDENTIFY AND WORK WITH PARTNERS WHO ARE NATURALLY ALIGNED WITH THE STRATEGY

FINDING the right partner is perhaps the most critical step, and will only work if one's understanding of the issue and one's strategy are clear. In China, there are a large number of good organizations that will tell you they have the capacity to do anything given the right budget, but that ability to be flexible in issue and approach may not be what the firm needs in a partner.

When building a program based partnership, one of the core issues that needs to be fully accepted at the start is that of expectations. Expectations, that when set, need to be met, and as the partnership continues, and expectations are met, exceeded, or failed, this is a critical piece that can result in the growth or death of a great partnership

For many firms, even the largest, this is an issue that often plagues a program as it requires a significant amount of time and thought. Time to get to know the partner's organizational needs, capacity to perform, and ultimately KPIs, and thought when it comes to (1) aligning the program goals to their needs, capacity, and KPIs and (2) an honest ability to recognize when a partnership is not in alignment and to maintain a process that finds the "right" partner.

Why this becomes an issue is in the relationship hierarchy, many donors ultimately feel that their partner is a vendor whose expectations for a partnership should align to theirs. Which may be true for traditional business vendor relationships, but in the world of socially and environmentally missioned organizations, this may not be the case. Which can lead to a number of problems if not understood, or planned for:

1 When speaking to one of China's government organized non-government organizations (GONGOs), it is important to remember that they are a government agency whose mission is to ultimately fulfill the policy related needs of the government. There are GONGOs that are focused on children's health, education, poverty alleviation, and disaster relief, and for them any partnership needs to respect and support that mission above all else.

2 If working with a global NGO like WWF, World Vision, etc, knowing their goals, and capabilities, in China can be more complicated as they have global and local mandates while (at times) having to operate in a regulatory environment that has yet to fully embrace the value proposition for foreign NGO involvement.

3 If speaking to a local NGO, foreign or Chinese led, the process is often easier for SMEs as the organization is typically smaller in size, is typically focused on a single issue, and as such can see far higher benefit from a great partnership. For them, their issue, is often quite personal in nature (as hopefully the firm's relationship would be as well), and with a couple of core programs offered, there are still different ways for a SME program involvement to happen.

Understanding the above, as a starting point, will allow you to quickly develop a focus for the type of partner that you are looking for (need) as you develop your ideas for carrying out your CSR Strategy.

4

DON'T COMPETE. ENGAGE

CORPORATE responsibility is not a game to be won, and the best measure of success is not the number of trophies and plaques in a trophy case. All too often, firms get wrapped up in the process of applying for awards (internally and externally) or looking for the sound bit that will round out their CSR report without realizing that the negative impacts to the program. That, in being focused by an external stimulus, firms are virtually guaranteeing that their commitment will be short lived and unlikely to be re-upped (even if successful). Programs will always need to be bigger and better, and therefore program stability cannot be maintained.

When developing a program, strategy or structure, a firm must engage its employees as part of the process if the goal is to develop an authentic and meaningful impact through their vision.



1 Bring employees (staff and executive) together early to talk about what the strategy is, why it is important to the reorganization, and what their role is (should be) in executing a strategy that will involve the entire organization.

2 Develop, and plan for, ideas that offer the earliest and widest engagement possible. Make the program personally relevant to the employee. Do not create programs that put the organizations mission first, as if it is the primary goal to build a program that supports the organization. It is a starting point that for many employees will create an intangible, perhaps hostile, relationship to their lives, their job, the organization, and the goals of the program.

3 Make it team based. Regardless of whether the initiative is a volunteer program, or a new EHS initiative meant to improve the working conditions of factory labor, find a way to develop program that are ecosystem based through team efforts. This will allow for programs to maintain themselves for far greater lengths of time, as employees work (and share results) together, but also reduce the variance should a single employee leave the firm.

5

CREATE DEEPER ENGAGEMENTS AND COMMITMENTS

FOR most organizations in China, regardless of what may be said, money is not the only issue they face. For many, issues of scale, human resource management, and program development are actually greater impediments to their growth of the organization, and this is where SMEs have an opportunities to create deeper engagements. Engagements that grow over time as both sides, be it a donor, supplier, or employee relationship, develop and execute projects that can be built on over time.

Volunteering Benefits The Firm

Increased employee productivity and loyalty



Increased team cohesion and leadership skills



Increased brand value and advocacy



... but it requires your support



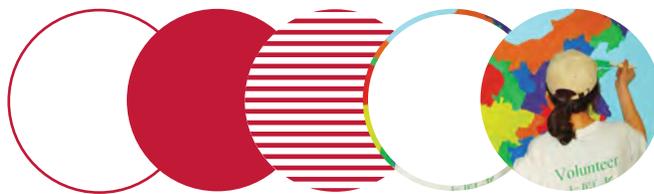
Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree

5 KEY CSR PROGRAM IN CHINA

WHILE historical references to CSR may have been limited to philanthropy and volunteer engagements, developing a strong, structured, CSR program should be far more robust in breadth for SMEs who are looking to maximize the investment impact and return to the firm.

It should be a program that is developed to support the needs of the business, employees, and external stakeholders and one that is seen as a step toward the development of something systemic when looking at where to start.

To accomplish this, there are five areas of programming that are core to any balanced CSR program structure, that executive, managers, and staff can consider when working for steps forward.



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1 WORKPLACE SAFETY

INTERNAL FOCUSED ON EMPLOYEE WELLBEING AND JOB SATISFACTION

FACTORY CONDITIONS | For firms who are manufacturing in China, ensuring that their factories (outsourced or owned) are in compliance with local labor regulations and expectations is key to any corporate responsibility program. It is an area that was once driven by external forces, media and NGOs, but is now driven more by internal (employee) expectations and action.

OFFICE WAGES AND BENEFITS | For firms who have white collar employees in the urban environment, it is important to understand that socio-economic pressures are rising as the costs of apartments rises beyond the reach of new workforce entrants, China's elderly population is starting to become a financial reality for families, and the general costs of living increase.

EMPLOYEE HEALTH AND WELLNESS | For firms who are manufacturing in China, ensuring that their factories (outsourced or owned) are in compliance with local labor regulations and expectations is key to any corporate responsibility program. It is an area that was once driven by external forces, media and NGOs, but is now driven more by internal (employee) expectations and action.

“ A META-ANALYSIS OF WORKPLACE DISEASE PREVENTION AND WELLNESS PROGRAMS FOUND THAT FOR EVERY DOLLAR SPEND ON THE PROGRAM, MEDICAL COSTS DROPPED BY ABOUT US \$3.27 AND ABSENTEEISM COSTS DROPPED BY ABOUT US \$2.73.

Health Affairs (February 2010)



2 GOVERNANCE

FOR years, doing things the “China way” was an excuse to be creative about, or overlooking the process of, internal and externals who were able to grease economic wheels for their personal benefit, and for the benefit of the firm. A complex set of issues, ensuring the governance structures are in place to not only protect the firm from scandal, but to ensure that the long term viability of relationships exists.

And whether it is stealing money, paying bribes, copying competitive designs, or in other ways engaging in practices that bring risk to the firm, one thing is being made clear in China, that enforcement of corruption is occurring at the highest levels and no firm will be spared should there be corruption.



SALES AND DISTRIBUTION | For SMEs, sales and distribution channel development often involves agencies. Agencies that can be a critical part of their sales efforts, but can often bring risks to the brand as these agents may employ corrupt practice to close sales. As such, it is important for firms, when vetting their agencies, to ensure that the practices of these firms (or individuals) are within accepted norms and do not become a risk for the firm.

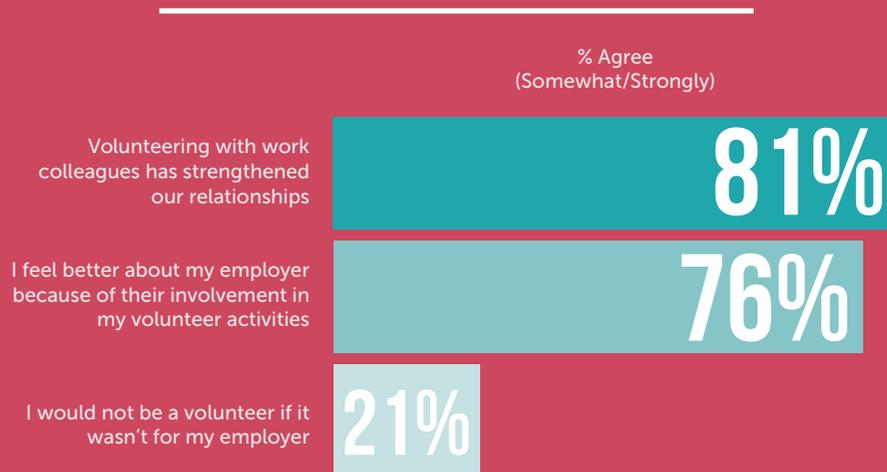
SUPPLY CHAIN | For manufacturers, maintaining a clean supply chain can be difficult. Particularly if a significant portion of the supply chain is outsourced. Therefore, it is important for firms to make the necessary investment to reduce the risk of corruption in the supply chain. Corruptions that may begin in one’s own purchasing staff who offer kickbacks for preferential pricing, or involve the bribery of inspectors who are ensuring product quality.

GOVERNMENT AFFAIRS | While most SMEs are too small to garner much influence within government agencies, attention needs to be paid to ensure that any and all interactions with government officials are in compliance with local and international law. This is true whether giving gifts to government officials, or in commercial arrangements that may have conflicts of interest.

3 CITIZENSHIP (COMMUNITY) PROGRAMMING

FOR SMEs, a strong citizenship program tends to be the most difficult given the organization's size. Difficult as the organization only has large program to model after, from the multinational firms and the needs of NGOs typically being larger than their capacity, and as such many firms will often look past a citizenship program.

However, developing a citizenship program is for many an areas where they can have an advantage over larger firms, who themselves are typically stuck into a standard process. That by engaging the organization as a whole, versus looking at a citizenship program as a one off, the firm will be able to find more creative ways to participate and engage.



PHILANTHROPY | Donations are, and will continue, to be a major focus for most firms. Even those that are only able to give limited amounts. For the SME, philanthropy can be a start of something, and to maximize the impact of donations it is advised that firms look internally to see what are the causes that staff are most engaged with, whether staff know of an organization that would be a “better” beneficiary, or even look internally for the beneficiary to receive the money.

VOLUNTEERING | When looking to develop a volunteer program, particularly one that the firm will maintain over time, look local, think small, and align to something that employees are themselves passionate about. Finding the hospital down the street, partnering with the local street committee, or even looking internally to identify families in need will offer the tangibility that employees need to remain engaged over time.

DISASTER RESPONSE | Regardless of the size of business, or industry, firms who are operating in China need to have a disaster response strategy and process allows the firm is able to act appropriately, and fast, in a time of crisis. For a small to medium sized firm, it is advised to look internally first. Understand what the needs of the employees would be in a disaster, and develop a strategy to support their needs first.

4 ENVIRONMENT

MINIMIZING IMPACT TO THE ENVIRONMENT OF A FIRM'S SUPPLY BASE

| WHILE much of the global discussions on environment are centred around answering whether or not humans cause global warming, and if so, what to do about it, for the average firm environmental concerns are still a local issue. Water shortages, air pollution, and other negative impacts are growing in size, scope, and frequency and now amongst significant business concerns.

With a steady stream of news recently about the impacts that firms have on China's environment, it is no wonder many are starting to ask whether or not firms have begun to accept their responsibility to more than the bottom line.

For SMEs, this is a critical areas where an ounce of prevention is a worthy investment as any disruption to supply based operations could lead a significant disruption in the business operations of the firm.

Three areas of focus when looking at reducing the firm's supply chain based environmental footprint:

1. FACTORY BASED EMISSIONS

As China's environmental conditions have deteriorated, and as citizen action has grown, factories with visible (or traceable) emissions have come under the pressure of NGOs, media, governments, and local residents. For some that led to fines, while for others it meant the closure of a supplier.

2. WATER & ENERGY EFFICIENCY

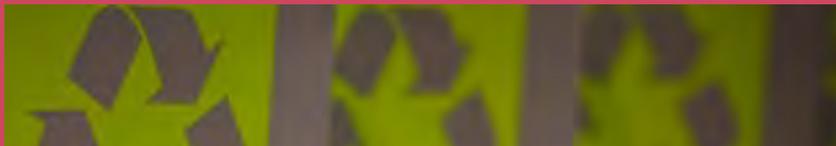
As China struggles with water and energy constraints, firms that operate in, or rely on, industries that require large amounts of energy and / or water need to begin reevaluating and reinvesting into cleaner processes. This is particularly true in urbanized, or soon to be urbanized, areas of the country, as those cities look to reduce their reliance on intensive industries.

3. MANUFACTURING AND CONSUMER WASTE

Lagging behind, but catching up quickly, is the issue of waste. A problem that is growing as China's cities run out of landfill space, and a desire to reduce the material intensity of the economy, local governments are now inserting regulations that are meant to reduce waste and encourage closed waste loops.

| SECOND to reducing the footprint of a firm's supply base, and products, small to medium sized enterprises should also look at how it can reduce the environmental footprint of its offices and office staff. Sure to be a magnitude smaller than the supply base, where an internally focused program can be beneficial (beyond the environmental footprint) is that it engages staff on a daily basis, develops culture, and helps to develop a foundation for future steps.

To make quick gains in the office, there are several adjustments that a firm can quickly make:



PAPER | Reduce, reuse, and recycle are the three standard ways many firms look to address the paper issue, with remove being a final step for firms who develop paperless processes. In a small office, this could start with a campaign to double side print, and create a recycling bin, but as a small company, removing printers altogether is an equally important move that saves money on capital expenditures as well as create a psychological barrier to printing that may not otherwise exist.

ELECTRICITY | One of the quickest ways to improve the environmental footprint of the building is to take simple measures to save energy. Set computers to automatically hibernate after 5 minutes of non-use, turning off lights in rooms that are unused, and mandating temperature controls are all ways that employees can learn about relationship between their habits and the environmental impact.

TRAVEL | Typically a large line item on the budget, and one that comes with a large carbon budget, executives at SMEs should not only look at ways to reduce both the financial and environmental footprint associated with travel. Develop policies that promote rail vs. air travel on short haul distances, remove the need for travel, work with responsible operators (airlines to hotels), and when all else fails, purchase offsets.

5 CONSUMER SAFETY

PROVIDING PRODUCTS/SERVICES THAT ARE SAFE AND LIVE UP TO CUSTOMER EXPECTATIONS

FOR firms whose brands see, or have seen, the China market as one with growth potential, the responsibility to consumers in China is becoming one of the most important aspects of any responsibility program. And as firms transitioned their China strategies from manufacture for export to selling to the Chinese consumers, these issues took on added importance as the financial crisis left few growth markets outside of China at the same time that several high profile product safety scandals gripped the market.

In developing a strategy that proactively addresses the concerns of consumer, but also strengthens the defenses of firms who experience a failure of any size, there are several areas of focus:

“PEOPLE RECOMMEND COMPANIES AND BRANDS THAT THEY TRUST TO BE HONEST WITH THEM AND CARE ABOUT THEIR WELLBEING AS CUSTOMERS. CUSTOMERS DECIDE WHICH COMPANIES AND BRANDS ARE TRUSTWORTHY IN THIS WAY BASED ON WHAT THEY SEE OF THEIR CORPORATE BEHAVIOUR.

Envero a European brand consultancy survey of 30,000 adults across 17 European countries)

PRODUCT QUALITY | It is important to understand that with increased income levels have come increased expectations, and while consumers 10 years ago may have been content with second or third generation products, they are now looking for top of the line products. Product that they feel offer the highest value for money, with safety and performance being two of the key traits, and consumers are looking to foreign brands to provide that assurance.

PRICING STRUCTURE | China's per capita income has been increasing, and with it the purchasing power of its middle class, firms need to ensure that the prices they are charging to Chinese consumers are within reasonable norms. For some, particularly those that are importing, this is at times difficult as the costs of doing business in China are fundamentally higher than they are in home markets.

REPAIR AND REPLACEMENT | In the case that something goes wrong with a product, it is important to ensure that a system is in place to honor product warranties and allow Chinese consumers the ability to have the product repaired or replaced at no cost to them.

DEVELOPING A CSR PROGRAM AND PROGRAM PARTNERSHIPS

BEFORE spending the time & money to develop the first program, firms need to focus on developing a common understanding of goals & expectations. Yes, there are times when an ad hoc program can be (and should be) developed, but without a common understanding of focus, capacity, or outcome, the efforts will likely end up fragmented and without tangible return.

Many firms fail to understand that CSR is simply a term for a process whereby the firm becomes aware of an issue they are exposed to, engages as an organization (leadership first), builds capacity for change (reduction of risk or positioning for opportunity), and then proceeds through various stages of executing and scaling the strategy. It is not simply volunteering, nor is it giving money. It is developing a wide scope of understanding around their value chain as a first step.



1

2

3

4

5

START SMALL

Identify, empower, and support, a small group of employees who will maintain their engagement on a regular program (or two). Organic growth will occur over time.

LOOK LOCALLY

The further away from the office the project site is, the more difficult it will be to sustain the partnership over time. So, find partners that are nearby, within walking distance if possible. Long distances between office and site increase the risk of drop off over time, but more than that, firms need to consider that the farther a volunteer travels the impact that has to their sense of community and engagement. Walking 5 minutes from the office, to site, will create a sense that the office is part of a community that also has needs. Needs that they are walking 5 minutes away to address.

MAKE IT ENGAGING

The key to a sustainable volunteer program is remembering that the volunteers need to enjoy themselves as well. So, develop projects that the employees have a personal passion for, are offered during the week, and are well managed. Giving employees 2 days a year to volunteer during work hours will have a different impact than expecting volunteers to participate only in their free time (i.e. weekends). An impact that could ultimately determine the success or failure of the program.

GENERATE BUZZ

Generate buzz through project write ups with gratuitous use of pictures and personal stories that are distributed through to generate viral engagement.

INVEST IN THE GROWTH

Invest in the growth of programs and prevent programs that your employees enjoy, and partners depend on, from dying.

MEASURING THE ROI OF CSR PROGRAMS

MAXIMIZING RETURN ON INVESTMENT

MEASURING the impact of a CSR program can be a daunting task that at times fails to offer clarity. For programs that are processed, or result in efficiency gains, the results may be immediately clear, but for programs that are focused on improved quality, employee loyalty, or improved stakeholder relationships, the gains may be more difficult to measure in the short term.

Which is why it is important for each firm to spend time in advance, while strategies are being developed, to understand how success and failure should be measured and assessed. Equally important is to recognize that different areas of the firm may benefit at different levels, and to develop a systems that offers both a high level and a granular assessment that allows for high level and practical adjustments to be made.

To help provide some clarity, we will look at several critical areas of the business, and how different CSR programs affect them differently.



HR RETURN

- **EMPLOYEE PRODUCTIVITY**

Does working for a firm that has a higher standard for responsibility increase productivity and engagement in employees.

- **EMPLOYEE RETENTION**

The ability of an organization to retain its employee in a given period

- **EMPLOYEE SATISFACTION**

How content an employee is with his/her job and company, and their willingness to refer their companies to others.

- **EMPLOYEE RECRUITMENT**

The quality of the new staffs and how easily the company can recruit qualified employees

MARKETING AND COMMUNICATIONS RETURN

- **CUSTOMER AWARENESS**

Do customers know about the strategy and programs of the firm that are in place?

- **BRAND LOYALTY**

Will the customers of the firm purchase their products (or services), even at a premium, because of the firm's responsible reputation?

- **BRAND ASSOCIATION**

Association of brand with positive image of environment protection, social responsibility and integrity

PUBLIC AND GOVERNMENT RELATIONS RETURN

- **GOVERNMENT RELATIONSHIP**

The relationship with the government.

- **INVESTOR RELATIONSHIP**

Relationship with the investors/ shareholders.

- **SOCIAL CAPITAL**

Relationship with the NGOs, Media, and Citizens

MEASURING THE ROI OF CSR PROGRAMS

MAXIMIZING THE RETURN THROUGH COMMUNICATION

| FOR many firms, communicating the firm's corporate responsibility practices is nearly as important as the practices themselves, which for firms who are not confident in their practices is made all the more difficult.

For SMEs, which typically do not have the large budgets that the large agencies would require, looking to social media offers a new way to effectively engage with internal and external stakeholders. It is a medium that allows for short stories, quips, and pictures to be spread virally, without paying for access, and while it takes time to develop a following, many SMEs are finding that through this investment they are developing a core following that is just as loyal as word of mouth engagements.

In developing a strategy there are two forms of communication that the firms need to consider when engaging stakeholders on their CSR strategy, internal and external.

#CSR

#VOLUNTEERING

#ENVIRONMENT

#LEADERSHIP

#TEAMWORK

EXTERNAL COMMUNICATIONS

The core of most communications strategies, external communications are typically focused on customers, suppliers, media, and NGOs who have the ability to influence the firm in one form or another. When engaging externally, many firms have traditionally looked to push a message of being responsible, or highlight the impact of their work.

For SMEs, where external communications can be focused is to develop a pull dynamic that engages stakeholders, creates better relationships, and opens the door for future engagements that are on aligned issues.

INTERNAL COMMUNICATIONS

An area that many large businesses have only recently begun to focus on, internally communicating has become widely recognized as a very important part of engaging staff, building a culture, and effectively executing on strategy. It can begin with presentations from executives about their vision, but over time it should be more focused on the work of staff. Staff who are volunteering their time, or are making suggestions to create efficiency. It should be regular, can be conducted by sending an email or tacking up a story in the break room, and should be 100% authentic.

THE ROLE OF SOCIAL MEDIA

When communicating your CSR strategy, programs, and impact, leveraging the tools of social media can be a cost effective and highly engaging means to do so. It is an opportunity to leverage the pictures that employees are taking, while at the same time honestly engaging followers to make suggestions that help support your own mission. In China, the social mediums that should be considered include Weibo, Weixin, Tudou, and Youku. With Weibo and Weixin providing mediums for text based engagement, and Tudou and youku providing mediums for video based engagement

CONCLUSION

FOR SMEs who are looking to develop a corporate social responsibility program, the key to your success will be your ability to maximize the resources you have to deliver maximum benefit. More than winning awards, executives should focus on ways to develop its core people, products, and process in such a way that the firm's model, culture, and engagements stronger.

As shown above, to accomplish this, executives need to take steps forward. Steps that at times may seem small, but necessary to make sure that the investments of time, energy, and money are not wasted.

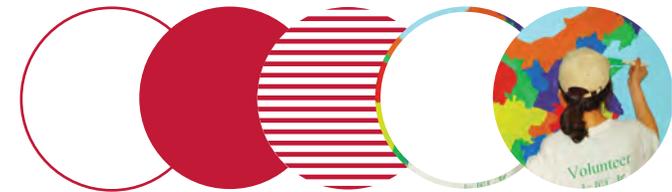
First, firms need to move past awareness and move towards knowledge. Investing in a process whereby you have an understanding of the issues that are important to key stakeholders (government, employee, and citizen) and understand the role that your firm plays as a stakeholder within the community within that issue is the first step. It is a process that will allow a firm's managers (HR, PR, operations and executive) to effectively frame and develop their strategy to address the economic, social, and environmental issues of their firm.

Second, firms then need to develop a focus around a clear strategy around a single topic, or a few topics and develop a strategy that will lead to the highest measure of impact. For a small firm, programs and partners need to be aligned to core activities of the firm and be built over time. Starts simple, resist the urge to shift in scope, and learn from failures.

Third, when rolling out a program, or portfolio of programs, leverage internal resources first before bringing in other parties. When external partners are needed, make sure they align with your strategy and have greatest opportunity for impact.

Fourth, stop trying to compete, and look to engage. Regardless of the space your firm occupies, developing a CSR program whose goal is to win an award is developing a program that has no long term sustainability. Focus on building programs that have an economic imperative, or address a specific stakeholder need. Good programs will brand themselves.

Finally, find ways to maximize the return on your investment by creating a platform that communicates to stakeholders naturally and without much additional effort. Leverage social media, and photos, as much as possible remember if you communicate more than what you actually do you risk pushback from stakeholders who know better.



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