

# Corporate Social Responsibility



## A CCBC Guide for Canadians Investing in China

### BACKGROUND

Trade between Canada and China continues to grow rapidly. While large companies have the resources to navigate their way around the issues of doing business in China, small and medium-sized enterprises can find the complexities overwhelming. The whole subject of Corporate Social Responsibility (CSR) and how to meet the specific company's ethical objectives in a substantially different business culture and environment has prevented many potential exporters from developing this promising market.

The following pages have been developed by the CCBC to help potential Canadian exporters to China find useful resources and to ask the right questions of their potential partners or suppliers in China. CSR has been broadly interpreted to include issues surrounding bribery and corruption.

CSR initiatives are generally defined as the voluntary activities undertaken by a company, above and beyond regulation, to operate in an economically, socially and environmentally sustainable manner.

There are growing expectations that companies abide by globally accepted CSR principles and practices, such as ISO 26000. This is no different in China. CSR expectations in China have grown dramatically in the past decade, but adherence to certain CSR principles and practices in China can be challenging.

### HOW TO USE THIS GUIDE

This guide is intended to highlight key aspects of CSR that companies should consider with regards to their business in China, and to provide tips on how to address these key aspects. This is not an exhaustive list or detailed guide, but rather a series of questions and considerations that companies need to think about in order to achieve CSR-related objectives that will allow them to meet stakeholder expectations.

This guide will refer you to the different resources available to help you better understand the history of CSR in China; the regulatory framework for CSR requirements in China; how to develop an appropriate CSR strategy in China; international guidelines for CSR and best practices for implementing and reporting on CSR strategies in China. A list of useful CSR resources is included in the appendix.

It is also important to fully understand the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the IFC Environmental and Social Performance Standards, ISO 26000:2010 (Social Responsibility) and the Global Reporting Initiative.



## LABOUR, ENVIRONMENTAL, HEALTH & SAFETY PRACTICES



How do you ensure your labour practices or the labour practices of your partner in China meet the necessary standards with regards to local labour regulations, benefits requirements and your expectations for environmental, health and safety (EHS)? How do you ensure compliance with the rapidly evolving standards in China with regards to these requirements? How do you meet shareholder expectations for EHS that go beyond Chinese standards?

- What are legal requirements in China for pay, overtime, vacations, bonuses, benefits and EHS, and what systems do you have in place to regularly review these requirements for your operations?
- What are international pressures for labour practices and performance in your sector and what are the expectations from shareholders and other stakeholders with regards to EHS performance in China for your operations?
- How can you assess current practices within your operations, with regards to working conditions, wages and overtime, benefits, etc?
- How can you assess EHS systems, training and equipment?
- How are you tracking and communicating your labour practices and EHS performance to your shareholders and other stakeholders?

## USING AGENTS & INTERMEDIARIES

China is a vast and complicated market. The bureaucracy is particularly complex with multiple levels of government and jurisdictions that often overlap. Engaging a well-respected local law firm is a critical first step. The CCBC can help.

However, decision-making is not always transparent, and often it will be necessary to engage well-connected local agents to help navigate the rules and regulations as well as to establish your links to the real decision-makers. It is critical to recognize that the use of agents and intermediaries can carry significant risk of unacceptable behaviour that might cause legal or reputational problems.

### Tips:

#### Invest in People

Invest in your CSR managers, EHS managers and inspectors. There are more and more managers and inspectors experienced in CSR and EHS standards in China. Independent inspectors that can be hired are also available.

#### Paperwork & Documentation

While paperwork may indicate the existence of appropriate systems, there is no substitute for field inspections and audits by your own staff to ensure proper implementation.

#### Focus on Performance

Assessments and audits of labour practices should focus on performance as well as systems in place. Instead of asking, “what personal protective equipment (PPE) is being used by workers?”, it is more instructive to understand and document what PPE training exists for workers, what corrective measures exist for non-compliance, and the current state of PPE use and condition during audits.



### Tips:

#### Background Checks

Vet your agent carefully for integrity. Information should be provided that addresses the qualifications and reputation of the agent. The CCBC, Canadian Trade Commissioners and private agencies can help with this.

#### Detailed Contracts

Use detailed and clear contracts with agents. Specifically list the tasks or services that are expected and the basis of remuneration.

#### Set Limits & Parameters

Most important is to list the activities that are forbidden. Bribery and breach of confidentiality provisions are major concerns.

#### Hospitality & Gifts

Gift-giving is part of the business culture but it has been seriously curtailed by the Central government. It is suggested that a financial limit be explicitly stated for any gifts to be presented to or meal to be taken with Chinese counterparts.

## SUPPLY CHAIN MANAGEMENT



### Tips:

#### Clarify Your Expectations

List the standards and norms you expect your suppliers to meet and describe in precise detail how your inspectors can verify compliance, and what deliverables and documentation are expected to document this compliance. Insist on the right to conduct random inspections.

#### Localize Your Process for the China Context

If you develop a list of vendor prequalification questions developed overseas to be understood or properly applied in China, you will likely end up with incomplete or irrelevant answers. Supplier assessment and auditing questionnaires should be developed in partnership with inspectors who understand what the CSR performance requirements are, how they can assess a vendor's performance in these areas and why this is important.

#### Ask the Right Questions

Your inspection of suppliers should focus on processes instead of just results. What systems are in place to document compliance with all applicable employment and compensation laws?

#### Check Payroll Records

It is important to ensure overtime and vacation pay is properly recorded and administered. It is also important to check that statutory deductions for various funds, including pensions, are being remitted to the appropriate authorities.

#### Pictures Are Worth 1,000 Words

Rely on photographs taken during inspections as much as official documents or certificates. Be sure to photograph the systems they use, such as log books of hours and employee identity paper filing systems, as well as the state of critical infrastructure and equipment.

#### Look Outside the Gates

Are there signs of visible pollution into the air or waterways near the supplier? Does the supplier document its disposal of hazardous or polluting substances? For new suppliers, how did the supplier acquire land? Sometimes a casual conversation with a shop keeper down the road from the supplier can provide insight regarding pollution or community relations that are otherwise hard to identify. Check with peers and sub-suppliers or customers of the supplier you are investigating. If conducting a field audit for environmental compliance, avoid being taken on a red carpet tour of the facility. Insist on inspecting out of the way parts of the property. Assessments and audits should focus on both performance and systems.

#### Invest in Your EHS Managers

Qualified EHS managers are in demand in China. For your own inspectors look for graduates from reputable schools such as the EHS academies in Guangzhou and Jiangsu, or connect with key university professors specializing in CSR, sustainability and EHS performance. It is important to spend time with your EHS managers so they understand your CSR requirements and why they are important. Listen to their feedback on how your processes are working or need further refining.

## INTERNAL CORPORATE ENGAGEMENT

Engaging internal staff through CSR-related practices and initiatives can boost morale and improve staff retention. There is growing expectation that foreign enterprises would support local charities and disaster relief initiatives. However, internal CSR initiatives need to be localized because ideas exported from Canadian headquarters may be inappropriate. For instance, some human resources managers may view the introduction of flexible working schedules as losing control over productivity. Certain team-building activities, such as pie-throwing contests may cause managers to lose face in front of their teams.

- Do you know what internal CSR initiatives are expected of you?
- What are the goals of internal CSR initiatives and corporate engagement in China? Retention of staff? Boosting morale? Boosting productivity? Capacity building? Meeting shareholder or stakeholder expectations? Improving government relations?
- How can you ensure buy-in, localization, ownership and empowerment?
- Are you communicating the objectives of CSR initiatives clearly to your China-based managers and staff?
- Ideas to consider: recycling, carpooling, flextime, volunteerism, community service, disaster relief, education (including English lessons), health and wellness, raising CSR awareness.

## COMPLIANCE & LICENCES

Business licences in China can be very restrictive and difficult to obtain. It is important to recognize the limitations associated with the very large Restricted Sectors and understand exactly what business practices are allowed under each type of business license you are applying for. Local legal advice is essential during the licencing phase of your business. It is also important to check the licences of your partners and suppliers.



### Tips:

#### Involve Stakeholders

Establish a local committee with key representatives from the human resources department. Determine if it is appropriate to allow other key staff to volunteer on this committee. Explain clearly the goals of internal CSR initiatives in Canada or elsewhere, and explain how various initiatives in Canada have helped achieve these goals. Determine with input from committee members what the CSR goals are for China operations and then determine which programs will meet these goals. Establish a budget, assign roles and responsibilities, and communicate progress to all staff.

#### Non-Governmental Organizations

If an initiative involves a local non-governmental organization (NGO), be very careful that the Chinese authorities properly sanction it. Also be careful that it is not associated with a personal special interest of an official, as this may be construed as bribery.

#### Education & Professional Development

Educational opportunities for staff or their families are highly valued.



### Tips:

#### Conduct Audits Frequently

The ability to audit a contractor, supplier or partner at any time is essential.

## CORRUPTION & GIFT-GIVING

Preventing and detecting bribery is increasingly important in light of regulatory changes over the past decade, which has made corruption and bribery of foreign government officials a criminal offence in Canada as well as in other jurisdictions such as the U.S. and the U.K.

These countries are aggressively asserting jurisdiction over the foreign operations and business practices of companies operating in their respective jurisdictions. Violation of anti-corruption laws in Canada, U.S. and U.K. can result in significant fines and imprisonment for individuals involved. In China, corruption can carry the death penalty.



### Tips:

#### Develop an Anti-Bribery Compliance Program

A company should have an ethics policy, code of conduct or specific anti-bribery policy that clearly spells out that both giving and receiving bribes are illegal and forbidden. The policy must spell out who is responsible and accountable for the compliance systems and periodic review and updating of the policy. The compliance program should include provisions for staff training on the appointment of the company's policy, compliance with staff policies and periodic signing off on the policy by all relevant staff. The policy should also address how books and records are to be kept and what to do with regards to reporting violations. As ethical breaches and corrupt activities are, by their nature, very hard to detect, whistleblowing by staff should be encouraged with a clear policy statement that there will be no reprisals against whistleblowers.

#### Do Your Due Diligence

Any business partner or supplier who is less than transparent with information will likely be deficient in other areas. Anti-corruption due diligence should be conducted on all third-party business partners and suppliers that interact with government officials or state-owned enterprises on your company's behalf. Due diligence is required to ensure such parties are reputable and qualified to perform the services they have been retained for and to detect historic or extant corruption issues. Contracts with third-party business partners or suppliers should also contain appropriate anti-corruption representations and warranties. It should be noted that this is very hard to do and specialized firms can be retained to help. The CCBC and the Canadian embassy can provide guidance.

#### Know Your Supply Chain

Be suspicious of evasive, incomplete or dismissive answers to questions about behaviour, corruption and bribery. International legislation requires you to be aware of all behaviour throughout your supply chain.

#### Do Your Homework

Useful guidance can be had from Transparency International Canada, their anti-corruption checklist and their workshops to better understand anti-corruption legislation and what it means for your business. Export Development Canada's anti-corruption quiz and its primers on the subject also provide useful guidance.



RESOURCE CHECKLIST

TOPIC	SOURCE	WHAT IS COVERED	LINK
Background Information	<i>CSR Guide for Multinational Corporations in China; Prosperity with Integrity.</i> Harmony Foundation. 2013	<ul style="list-style-type: none"><li>History of CSR in China</li><li>Regulatory framework for CSR in China</li><li>Chinese national CSR standard(s)</li><li>How to develop a CSR Strategy</li><li>Tips for CSR improvements</li><li>Working with NGOs and other partners in China</li><li>Frameworks for reporting on CSR</li></ul>	harmonyfdn.ca bit.ly/18zZKNn
	<i>A Guide to Corporate Social Responsibility in China.</i> The American Chamber of Commerce in Shanghai	<ul style="list-style-type: none"><li>Benefits of CSR in China</li><li>Start-up kit for building a CSR program in your office</li><li>Engaging in CSR as a SME</li><li>Engaging in philanthropy</li><li>Working with charities</li><li>AmCham Shanghai reviewed NGOs and contact information</li></ul>	amcham-shanghai.org bit.ly/1tBd0HS
	<i>Best Practices: CSR in China.</i> The US-China Business Council. 2006	<ul style="list-style-type: none"><li>How to select CSR projects</li><li>Selecting a partner for CSR projects</li></ul>	iprsc.com bit.ly/Ze3Bha
	<i>Doing Business in China; A Guide for Canadian Exporters and Importers.</i> Export Development Canada	<ul style="list-style-type: none"><li>Doing business in China</li><li>Covers a range of topics, and includes links to more sources.</li></ul>	edc.ca bit.ly/1t2UXA0
	<i>UN Guiding Principles on Business and Human Rights</i>	<ul style="list-style-type: none"><li>Various</li></ul>	ohchr.org bit.ly/18WbEUy
International Guidelines & Standards	<i>The OECD Guidelines for Multinational Enterprises</i>	<ul style="list-style-type: none"><li>Various</li></ul>	oecd.org bit.ly/1xprNJv
	<i>IFC Social and Environmental Performance Standards</i>	<ul style="list-style-type: none"><li>Standards</li><li>Guidance notes</li></ul>	ifc.org bit.ly/1CYOvv8
	ISO 26000:2010	<ul style="list-style-type: none"><li>Various</li></ul>	iso.org bit.ly/1dGrsYa
	Global Reporting Initiative	<ul style="list-style-type: none"><li>Various</li></ul>	globalreporting.org bit.ly/1aVFfc3
	<i>A Review of the Available Literature Cover Child Labor in China.</i> CCR CSR. 2009	<ul style="list-style-type: none"><li>Current situation of child labour</li><li>Legal framework for child labour</li></ul>	ccrcsr.com bit.ly/Zt5IOC

TOPIC	SOURCE	WHAT IS COVERED	LINK
Supply Chain Management	<i>Worldwide Responsible Accredited Production (WRAP)</i>	<ul style="list-style-type: none"><li>Supply chain assessment tools</li><li>Compliance auditing and certification</li></ul>	wrapcompliance.org
Internal Corporate Engagement	<i>A Guide to Corporate Social Responsibility in China.</i> The American Chamber of Commerce in Shanghai	<ul style="list-style-type: none"><li>Start-up kit for building a CSR program in your office</li></ul>	amcham-shanghai.org bit.ly/1tBd0HS
Using Agents and Intermediaries	Trace Select Advisory services	<ul style="list-style-type: none"><li>Due diligence tool</li><li>Advisory services</li></ul>	traceinternational.org veracityworldwide.com
Corruption and Bribery	<i>Good Practice Guidance on Internal Controls, Ethics, and Compliance.</i> OECD. 2009	<ul style="list-style-type: none"><li>Practical tips for internal controls to prevent and detect corruption and foreign bribery</li></ul>	oecd.org bit.ly/1pQWVwH
	<i>ICC Ethics and Compliance Training Handbook.</i> International Chamber of Commerce. 2013	<ul style="list-style-type: none"><li>Practical guidance on stamping out corruption</li></ul>	iccwbo.org bit.ly/1oRbO1M
	<i>Anti-Corruption Quiz.</i> Export Development Canada.	<ul style="list-style-type: none"><li>Quiz to test your knowledge of anti-corruption issues</li></ul>	edc.ca bit.ly/1y75g7u
	<i>Keeping Corruption Out: EDC's Guide for Canadian Exporters.</i> Export Development Canada	<ul style="list-style-type: none"><li>High-level primer on identifying and mitigating corruption</li></ul>	edc.ca bit.ly/1EuTANz
	<i>Briber Beware.</i> Export Development Canada	<ul style="list-style-type: none"><li>Guidance on preventing bribery in international business</li></ul>	edc.ca bit.ly/1rhjsSB
	Anti-bribery risk assessment	<ul style="list-style-type: none"><li>Various</li></ul>	traceinternational.org
	Business principles for countering bribery	<ul style="list-style-type: none"><li>Framework to develop anti-corruption programs</li><li>Monitoring tools</li></ul>	transparency.org
	<i>Corruption Investigations.</i> CKR Global Solutions	<ul style="list-style-type: none"><li>Consulting and investigative services</li></ul>	ckrglobal.com
Regulatory Compliances and Licenses	<i>Starting a Business in China. Doing Business Project.</i> World Bank. IFC	<ul style="list-style-type: none"><li>Types of businesses</li><li>Business licences</li></ul>	doingbusiness.org bit.ly/UxZIRV
	<i>Doing Business in China.</i> HSBC and PWC. 2012	<ul style="list-style-type: none"><li>Setting up business</li><li>Audits and accountancy</li><li>Banking</li></ul>	hsbc.com.cn bit.ly/1e1orqD