

Environmental protection and capacity building-what can brands and suppliers do?

**“The Supply Chain
Talks Back 2006: Capacity Building
- Rhetoric or Reality”
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SINOSPHERE

SINOSPHERE is a multi-disciplinary consulting firm providing services in the areas of environment, occupational health and safety (OHS), and CSR for multinationals, institutions and government agencies operating in China. Specific services provided include: EHS policy and regulatory analysis; due diligence audits and assessments; indoor air quality testing; supply chain CSR strategy development; and CSR auditing.

SINOSPHERE supports sustainability and social responsibility by promoting the integration of technical, market and ethical standards in all its activities.

SINOSPHERE has long experience in the design, planning and conduct of various types of auditing and remediation programs, including Phase I and II Environmental and Health Safety (EHS) assessments, and CSR audits which includes measuring facility compliance against environment, OHS and Labor standards, and benchmarking performance against local industry standards and best practice.

Scope of CSR

企业社会责任的范围

- Good governance 善治
- Health and safety* 健康和安^全*
- Environmental impacts*环境影^响*
- Labor rights*劳^工权^利*
- Social社会
- Ethics伦^理
- Corruption腐^败
- Social development impacts社^会发^展影^响

The Development of CSR in a Global Context

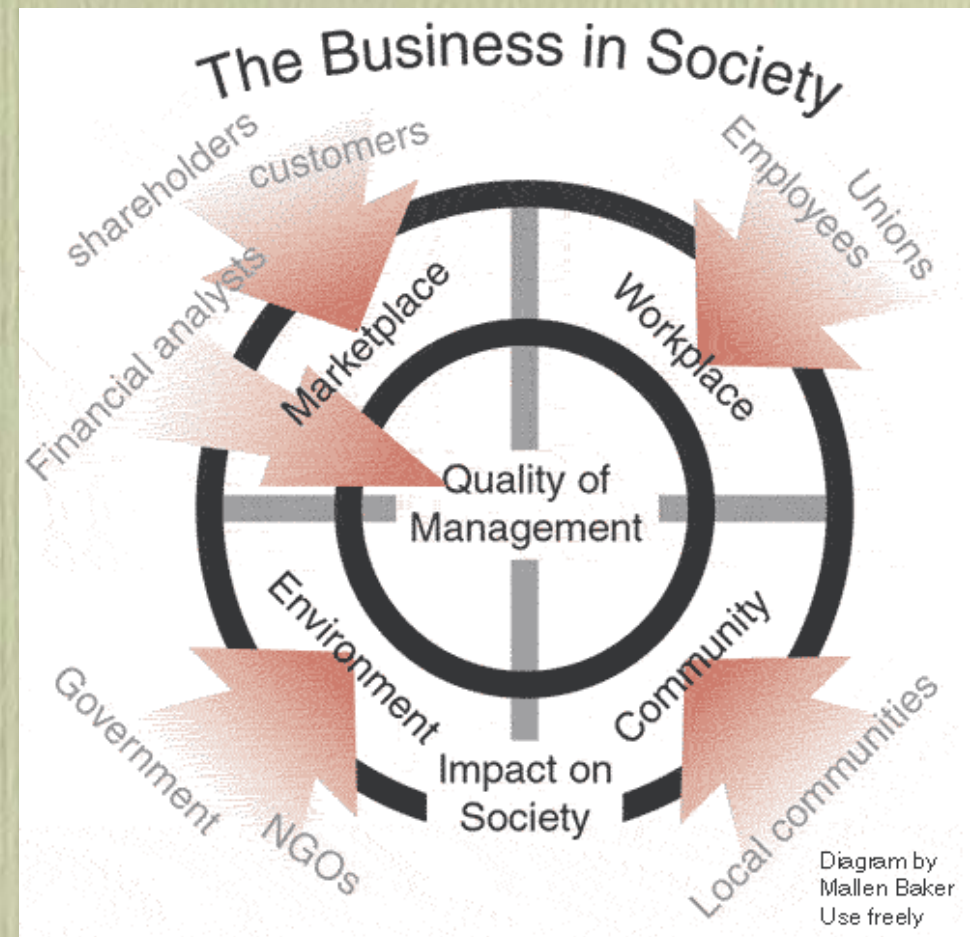
- CSR has evolved out of the movement towards greater transparency and accountability within business and industry
- As the power of multinational corporations has grown, so has public awareness and demands for good business practices from consumers, governments and NGO watchdogs
- ➔ **Brands transfer parts of the risks to their suppliers**
- Over time, an increasing number of issues have accrued to the definition of CSR: environmental impacts, health and safety, labour rights, ethics and social development impacts among others
- Especially in developing economies such as in China, where shortfalls with regulatory scope and enforcement exist, CSR programs need to address local realities
- ➔ **Issue: China's regulatory environment is based on 'Command-and-Control', and so it supply chain management**

Definition of CSR/企业社会责任的定义

- Different companies use different terms (e.g. CSR, Sustainability, Corporate Citizenship). 不同的企业使用不同的名词 (如, 企业社会责任, 可持续经营, 企业公民).
- All have a similar meaning: “...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 of the local community and society at large...”

From WBCSD

但都有一个共同的意思: “...企业持续承诺符合伦理的行为, 并且在为经济发展做出贡献的同时改善工人和他们家庭的生活, 以及促进当地社区以及整个社会的发展...” ——世界可持续商业委员会

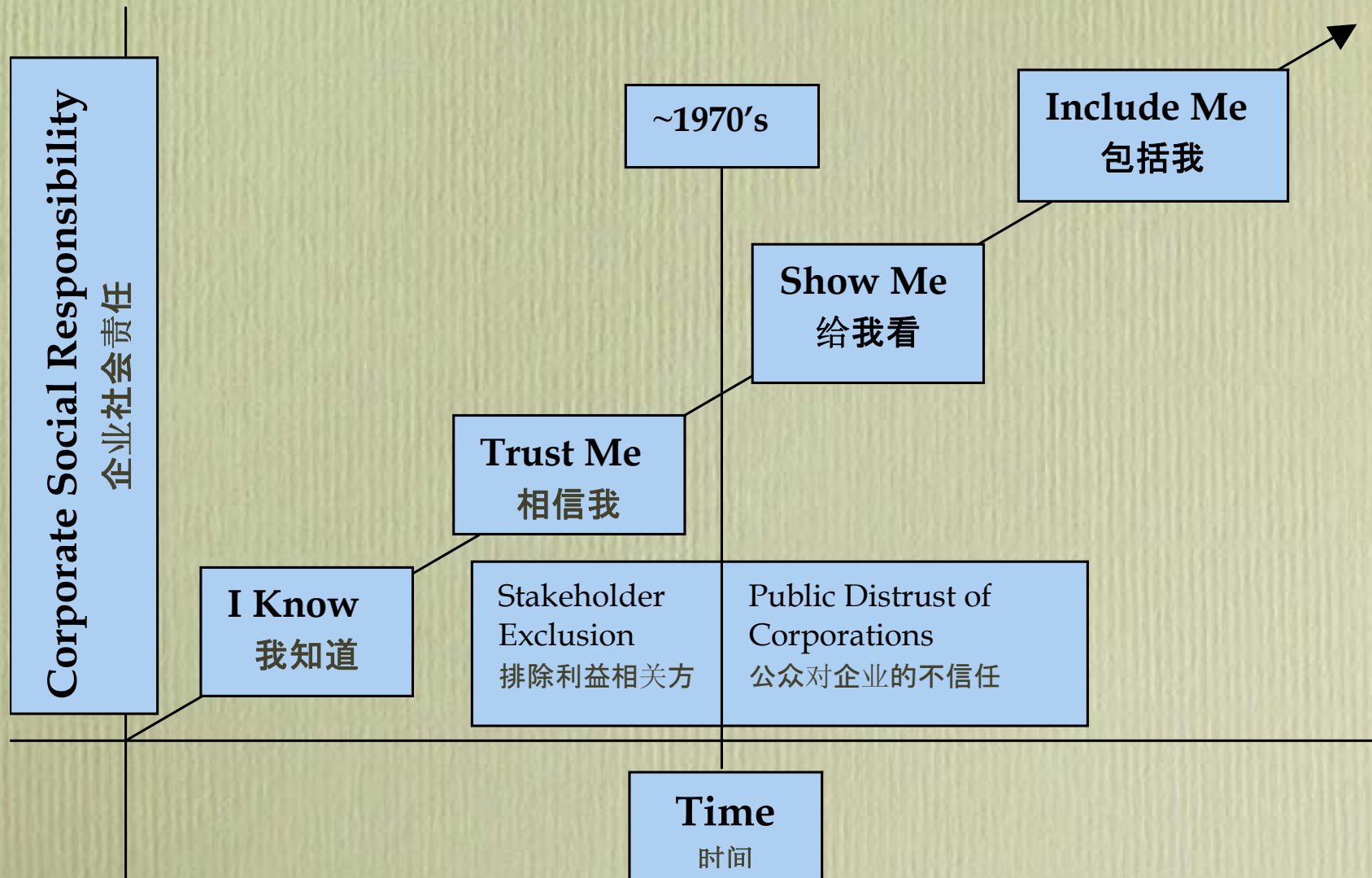


Environmental Movement – Raising the bar on Corporations

环境运动 – 企业的障碍提高

- Continued public dissatisfaction with government performance in addressing environmental issues lead to the formation of EPA/SEPA and introduction of Air and Water Protection Laws.
公众对政府在解决环境问题的表现持续不满，导致了国家环保署（局）的出现以及清洁空气法案和清洁水法案的出台。
- Continued focus on governments and regulatory reform to control the behavior of companies.
继续关注政府及法律改革来控制公司的行为
- Focus on corporations environmental performance but little in way of social performance.
关注企业的环境表现，但是并不关注企业的社会表现

The Evolution of CSR 企业社会责任的发展



Globalization - Beginnings of CSR

全球化 – 企业社会责任的开端

- Prompted an entirely new focus among NGOs, media outlets and consumers.
促成了一个非政府组织、媒体及消费者关注的焦点。
- Where once minimization of environmental impacts was the inspirational standard, increasingly a much broader range of issues are evolving.
最大限度地减少环境影响曾经是让人鼓舞的标准，但现在企业社会责任已经开始包含越来越广泛的问题。
- Corporations seen has having strong influence on society and thus having responsibility to society.
企业对社会有着深刻的影响，因此也对社会负有责任。
- Call for greater transparency and interaction.
呼唤更多透明和互动。

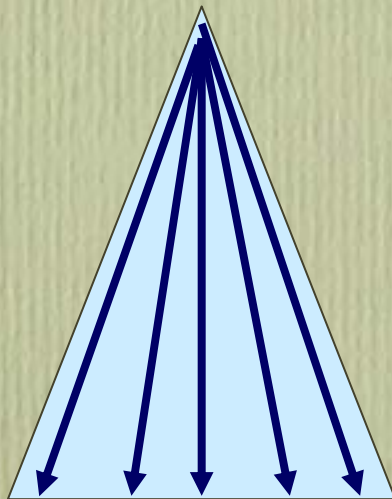
Old model/旧模式:

Pyramid of influence/金字塔式的影响

'Branding Company'

'品牌公司'

Co. 公司



Mass consumers

大众消费者

New model 新模式:

Circle of cross-influences 交叉影响的圆圈

'Corporate Citizen'

'企业公民'

Consumers

消费者

employees

员工

media 媒体

trade association

工会

Co.

公司

suppliers

供应商

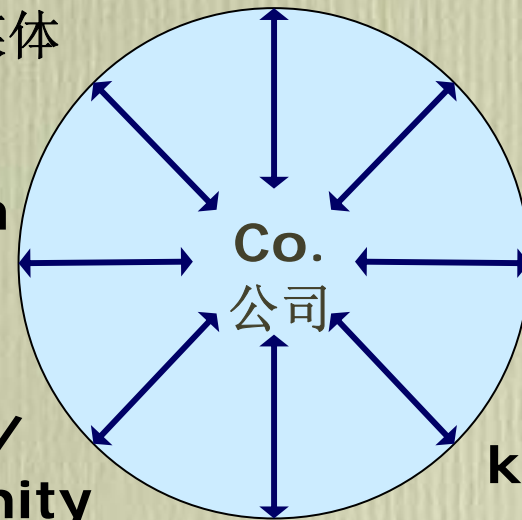
NGOs/
Community

非政府组织/
社区

regulators 法
规制订者

key clients

主要客户



Environmental Requirements

Quality Management Systems precede Environmental Management Systems

PAST: Quality = Customer Satisfaction

PRESENT: Quality
 Compliance
 Resources Management
 Social Performances
 Community Relations

Focus should remain on performance improvement through innovation

Factors Influencing CSR in China

- Determining the standard for adherence requires knowledge of international practice, local legal requirements, and local conditions and common practices; however when doubt arises, the most crucial factor should be as follows:

What is the best practice that can be implemented and communicated, and to what extent does the situation pose a risk of liability and/or scandal

- In many cases, apparent conflicts will be identified between the the minimum requirements of local law – which in developing countries such as China are often quite vague with significant grey areas – and international practice
- In many localities even applicable laws are not enforced by regulators due to lack of capacity, the desire to attract investment, and/or corruption
- In ambiguous situations, it is the level of risk which must dictate whether full adherence to local law and practice is acceptable, or whether more stringent international standards must be applied

Issues Facing Corporations 大企业所面临的问题

Codes of Conduct 行为准则

- Typically require compliance with national and local regulations 一般要求遵守国家 and 地方的法规
 - “...**COMPLIANCE WITH APPLICABLE LAWS**
All Vendor Partners shall comply with the legal requirements and standards of their industry under the national laws of the countries in which the Vendor Partners are doing business. Should the legal requirements and standards of the industry conflict, Vendor Partners must, at a minimum, be in compliance with the legal requirements of the country in which the products are manufactured...”
Walmart Standards For Vendor Partners. “...**遵守相关的法律**: 所有的供应伙伴应该遵守所在国家的法律框架下的法规要求和行业标准。如果行业标准与法律有冲突, 供应伙伴必须至少遵守产品产地所在国的法律要求...” 《沃尔玛供应伙伴标准》
- Lack of local implementation by authorities due to lack of capacity, desire to attract investment, and/or corruption (e.g. medical insurance). 由于缺乏能力, 渴望吸引投资或者腐败而导致法规执行不力 (如医疗保险)
- Legal grey areas. 法律的灰色地带
- Reality is most suppliers fail to meet compliance. 现实是大部分供应商不能遵守法规要求

Environmental Performances

Scientific Measurement against available standards

- **China Focus: Emissions & Certification**
Compliance with applicable discharge standards;
Settlement of Pollutants Emission Discharge Fees;
Compliance with Mass Loading Requirements; etc.

Continuous Improvement and Industry Standards

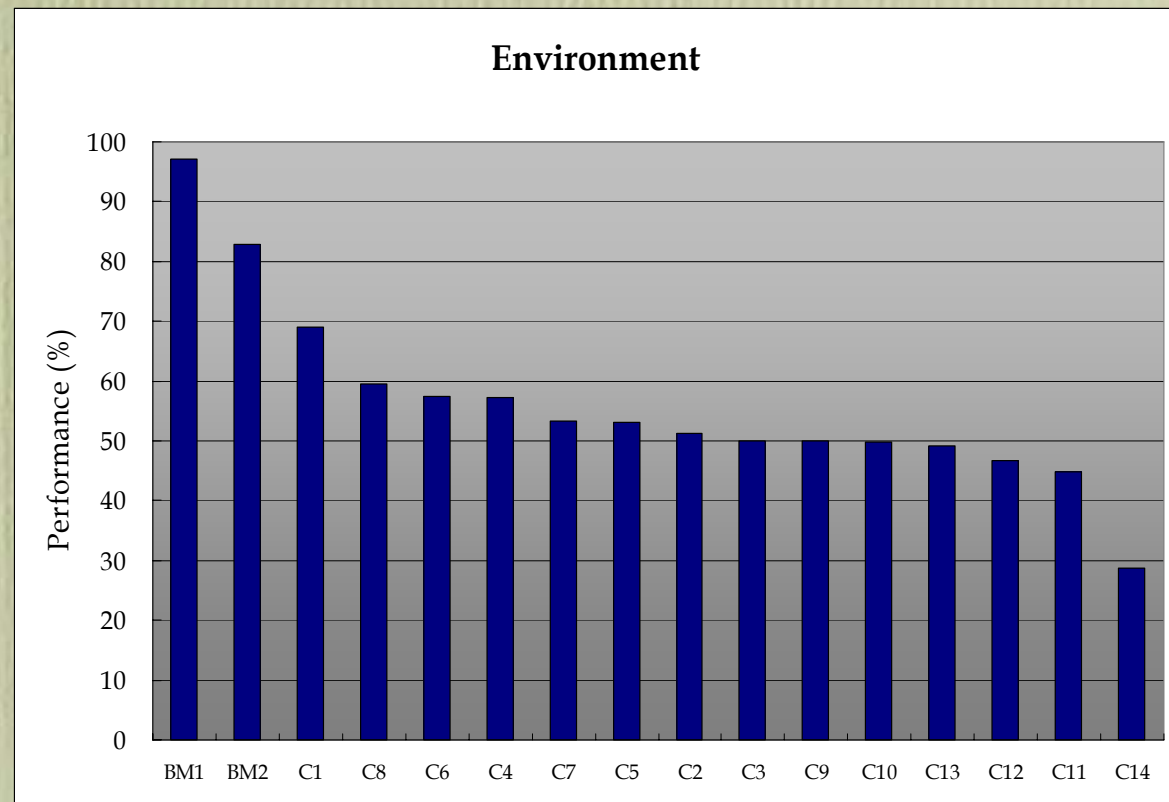
- **International Focus: Resources Management & Industry Best Practices**
Energy Efficiency
Material Substitution
Circular Economy

Specific Common Issues Encountered in China: Environment

Pollution Control and Waste Management:

- Chinese EHS and Labour laws are generally well defined, however as with other regulatory areas the requirements are often not enforced by local authorities
- Responsible companies are often forced to perform self-monitoring beyond what is required in developed economies where regulators have greater capacity
- In many areas solid waste and hazardous waste treatment facilities are inadequate or nonexistent, meaning responsible companies must audit waste handlers and make their own transportation/treatment arrangements should the options available fail to meet standards

Chart 3: Audit Results: Environment



Issues Facing Suppliers

供应商所面临的问题

ENVIRONMENT 环境

- Hazardous waste disposal 有害垃圾处置
 - Rely on government certified contractors. 依靠政府认证的承包商
 - Assume that using certified contractors avoids liability.
认为使用认证过的承包商可以避免责任
 - Certification is not a guarantee. 认证并不是保证
 - Preferred operators often have special relationships with authorities.
首选的承包商经常和权威部门有着特殊的关系
 - Good practice is to audit all waste contractors before contracting services.
好的做法是在把服务承包出去以前对承包商进行一定的核查
- Regulatory monitoring 法规追踪
 - Local implementation often weak. 法规在地方的实施经常是无力的
 - No records of emissions and discharge compliance. 没有关于排放的符合法规的记录
 - Responsible company should track these impacts.
负责任的公司应该追踪这些影响

Issues Facing Suppliers

供应商所面临的问题

ENVIRONMENT 环境

- Over reliance on certification (e.g. ISO14000) 对认证的过度依赖 (如 ISO14000)
 - Certification often requested by clients.
认证经常是客户要求的
 - Very often becomes a paper-based exercise and not fully applied in reality.
这些认证常常成为书面的练习，并没有充分在现实中应用
 - Understand how to run the system but lack awareness on why they are doing it.
理解如何运行该系统，但是并不明白为什么要那样做

Environmental Cost Savings

Wastes are unprocessed material

- **Material Substitution:** potential increase in manufacturing costs but reduction of waste production, inducing reduction in handling, storage and treatment costs
- **Recycle and reuse to reduce contamination/volume**
- **Identify potential secondary users**

Reducing consumption of energetic materials

- **Technological investments in energy efficient devices (and renewables);**
- **Energy processing**
- **Improved insulation**

How to Identify Improvement Opportunities

The SINOSPHERE Approach to CSR

SINOSPHERE performs CSR auditing and benchmarking, and designs programs for ongoing training and awareness building to ensure long term sustainability of companies and their suppliers

Initial Benchmark Auditing

- **Employs a comprehensive audit protocol designed to assess performance in the areas of Environment, OHS, Labour, Dormitories, and General Awareness**
- **Results quantified using a standardized Scorecard system which establishes a baseline to be used for tracking improvements and in comparisons against peer companies as well as best practice “Benchmarks” from various industries**

Development of Customized Programs for Ongoing Training, Awareness Building, and Future Audits

- **Audit results are used to determine specific areas requiring development, programs designed to meet individual needs of companies and their suppliers**
- **The key to long term sustainability of CSR programs is the transfer of knowledge required to manage the program, through internal auditor training and awareness building for senior managers**

Challenges and Best Practice Solutions

Minimum compliance criteria can be expressed and communicated as baseline, or “Zero Tolerance” standards which constitute a pre-requisite for doing business

- In contrast to local industry, international companies which are accustomed to the stringent legal requirements of developed economies, will often take such baseline standards for granted
- To be successful in China, basic commitments must be made by senior managers and communicated throughout the company to establish an ethical culture and prevent misunderstanding on the part of Chinese partners and stakeholders whose expectations may be quite different

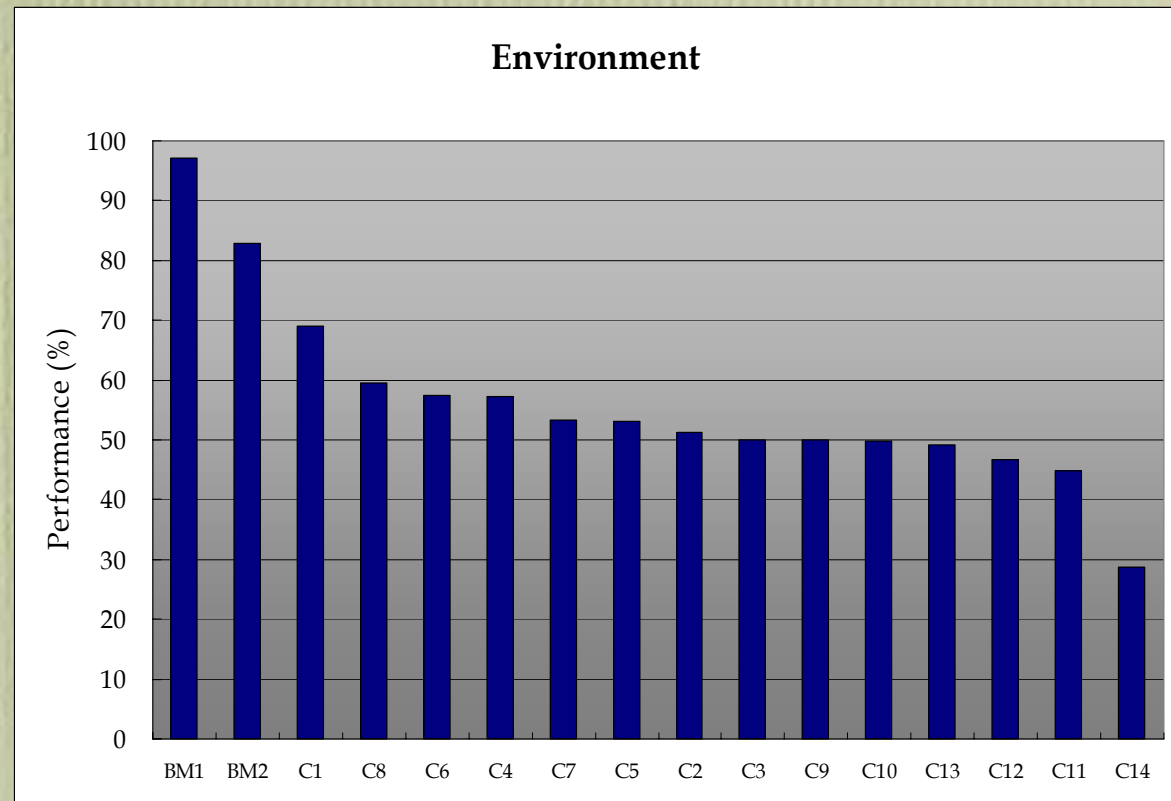
Only after a firm baseline has been established can a CSR program begin to overcome the challenges posed by doing business in a developing economy

Specific Common Issues Encountered in China: Environment

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Benchmark Audit Results: Environment



The Seven Point Scoring System:

Used to track progress from basic Compliance and beyond into Best Practice

<i>Score</i>	<i>Title</i>	<i>Description</i>
NA	NA	The category is not applicable.
0	Lacking Awareness	Company completely lacks awareness thus failing to meet minimal legal and regulatory CSR compliance requirements.
1	Unwilling	Company consistently and knowingly failing to meet minimal legal and regulatory CSR compliance requirements.
2	Deficient Compliance	Company consistently, but unintentionally, failing to meet minimum legal and regulatory requirements for CSR performance, for reasons either due to low awareness, lack of in-house capability or weaknesses in the regulatory regime.
3	Successful Compliance	Companies that generally limit their corporate and social responsibilities to meeting the minimum legal and regulatory requirements of the host country, but which demonstrably succeed in meeting these standards.
4	Beyond Compliance	Company frequently delivers CSR outcomes beyond minimum legal compliance by establishing and publishing their own business principles and/or codes, and who has, or is progressing with, the establishment of management reporting and independent verification systems.
5	Innovation	Company experimenting with novel approaches to exercising social responsibilities, in particular putting in place management systems and tools that align their core business and CSR activities with the sustainable development priorities of wider society, and that seek to optimize the balance between the business and development benefits of their operations.

Managing Supplier CSR

Remediation and Continuous Improvement

Assessments are in general not conducted to “pass” or “fail” the supplier, but to evaluate the supplier’s performance level and to determine areas for improvement. Based on findings, the supplier will develop and implement corrective actions as well as plans for continuous improvement.

Short-term: Develop and implement corrective action plans for serious offences (non-compliance with critical or zero-tolerance issues)

Mid- to long-term: Pinpoint areas for improvement and encourage continuous improvement.

Engage with suppliers to enable ownership of remediation plans and facilitate supplier commitment to continuous improvement.

CSR Strategy & Policy Development

Information: what you can obtain & process by yourself

Communication: result of mutual contributions

Information v. Communication



Report

Statement

Radio/News

Web site

...

No relationship is created

Round table / Meeting

Training

Conference/Workshop

Survey/Benchmark

...

Exchange is created



Corporate Social Responsibility is based on long-term relationships amongst identified stakeholders

Supplier Manual

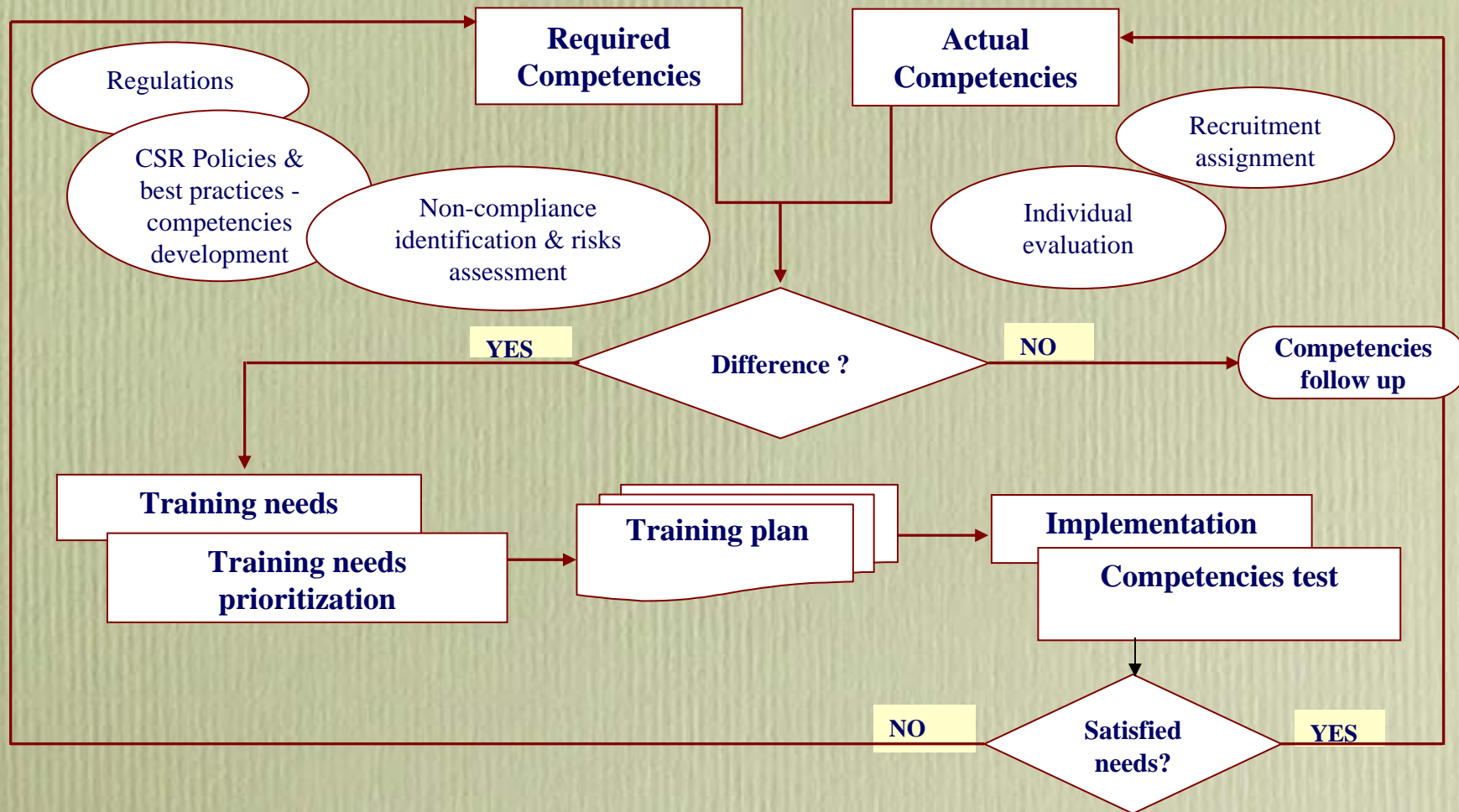
Experience has shown that most suppliers lack awareness on CSR principles, knowledge on CSR performance improvement opportunities and how client expectations (e.g. Codes of Conduct) should be interpreted and applied.

While training is the best method for bridging the awareness gap, extensive training is often not practical in a large supplier network where resources are limited.

The creation and distribution of a well constructed manual is an effective awareness building medium given it achieves high coverage at low resource cost.

The Manual must provide key steps to improving CSR performance at the factory level.

Identification of training needs



Conclusion

Open Floor



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Thank You!