Sustainable Champions: how International Companies are Changing the Face of Business in China

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Foreword

Sustainability Champions in China

China`s modern development has delivered more people out of poverty in an equivalent time than in any period or place in human history. Foreign direct investment into China has been an essential aspect of its recent development, and the associated businesses have therefore contributed to China`s economic and broader social success. China`s declared policy since the early 1980s of `Going Out` has opened it to international capital, technology and businesses in driving an export and infrastructure-led development pathway.

Multinationals over the same period have evolved to embrace a wider set of responsible business practices across their global operations, from their management of labor standards in global supply chains to new standards on everything from anti-bribery to pollution and carbon emissions, and to the disclosure on their sustainable development policies, capabilities and impacts. Such practices have often in their initial stages been adopted in the face of public pressure, indeed often because of perceptions of poor sustainability performance in China and elsewhere.

Over time, responsible business practices have become embedded in international corporate leading norms, although them remain far from being universally adopted despite many new standards being developed and advocated. Where successfully adopted, they have become a keystone in securing not only high public regard, but also the best employees, good government relations, and innovative and productive cultures that in turn drive business success. Multinationals have led in bringing such practices to China, partly because they have become company-wide standards, but also increasingly because of growing demands from the Chinese public and the state.

China was initially reluctant to accept, let alone emulate, international responsible business standards that went beyond Chinese law and norms. Since the turn of the century, China`s larger businesses, especially those with growing outward investments and international brand profiles, begun to adopt such standards. Most recently, and partly in response to serious concerns amongst the Chinese public about domestic environmental and social challenges, growing numbers of Chinese companies have moved beyond emulation and started driving sustainable development into the DNA of their businesses. This latter development, strengthened in China`s forward-looking policy context of the “new normal” that emphasizes development quality over quantity, is providing a new source of innovative, leadership practices that should in turn shape the next generation of international, sustainability-aligned, business practices.

The evolution of responsible business practices in China is a keystone of our recent economic and broader, international history, and it is timely that the role of multinationals in this context is explored and better understood. The leadership experiences set out in such practical and compelling fashion in this book illuminate this role, highlighting how practice has been shaped by a combination of international and domestic drivers, together with personal leadership and determined managerial actions. The book`s blend of practical storytelling and evidence-based analysis should inspire and provide a rich source of lessons for students and managers and also policy makers seeking to enhance the role of business in society, in China and internationally.

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Introduction

Can growth and sustainability be combined? The best place to look for an empirical answer is China because the scale is so large on both counts. Economic growth has slowed but remains impressive (GDP grew by $1.5trn between 2012 and 20141); but equally important is the nature of this activity: consumers are becoming more brand conscious, alert to values as well as value. It is no longer enough to produce cheaply and consistently: brand positioning is crucial even in the third and fourth tier cities served by satellite TV and global-level advertising. Along with discerning consumers, multinational companies face stiff competition from a state sector that enjoys a low cost of capital, and a dynamic, agile and well-networked private sector, including several Chinese multinationals. Even national players can be significant competitors – China's three largest Provinces (Guangdong, Jiangsu and Shandong) would each figure in the word's top 20 national economies.2 All of these consumers, and all these companies, are clamouring for growth.

At the same time, the impetus for sustainable modes of business is coming from all directions. Once championed by a few meddlesome NGOs and cautious scientists, now citizens, employees, customers, governments and business leaders know this is the direction of travel, underpinning the social legitimacy of growth. Waking up day after day to the smoggy haze enveloping Beijing and many other cities, sustainability has an aesthetic, visceral meaning: we have cut ourselves off from clean air, the blue sky and sunshine.

China's environmental crisis is one of the most pressing challenges to emerge from the country's rapid industrialization. Its economic rise, which has averaged around 10 percent annual GDP growth for the past decade, has come at the expense of its environmental and public health. As the world's largest source of carbon emissions, China is responsible for a third of the planet's greenhouse gas output and has sixteen of the world's twenty most polluted cities. Life expectancy in the north has decreased by 5.5 years due to air pollution, and severe water contamination and scarcity have compounded land deterioration problems. Environmental degradation cost the country roughly 9 percent of its gross national income in 2008, according to the World Bank, threatening to undermine the country's growth and exhausting public patience with the government's pace of reform. It has also bruised China's international standing as the country expands its global influence, and endangered its stability as the ruling party faces increasing media scrutiny and public discontent (Xu, 2014[3]). Sustainability is the urgent need and basic standard for all innovation. It is acutely important for any company, global or domestic, to do business in a sustainable way.

There is a big debate over whether corporate-led globalization is a positive or negative force for the environment. Many foreign MNCs in China have been targeted by civil society groups for dumping waste in air and water, using toxic materials, in the manufacturing process, and abusing labour rights. This book shines a light on the conversation about whether foreign direct investment in China promotes a sort of "race to the bottom" or if it can elevate environmental and labour standards. Here we have nine case studies featuring companies that are trying to do better, in various ways.

[1] National China Statistical Bureau
[2] IMF
[3] Xu, B. (2014). "China 's environnemental crisis." Council on Foreign Relations. Available at: http://www.cfr.org/china/chinas-environmental-crisis/p12608

We present case studies of nine large companies operating in China, focusing on sustainability-oriented innovations in their supply chains (Table 1.1). Eight of these companies are WWF Climate Savers, members of a club of multi-nationals pledged to reduce their greenhouse gas emissions by significant proportions year on year[4]. One, Nestlé, is a member of Bioplastics Feedstock Alliance (BFA), also coordinated by WWF. These companies work with the global NGO to inform, monitor and accredit their progress. The targets they pursue are global, and it is relatively easy to make improvements in China because the base level is low and the scale enormous. Innovations in China can translate into significant step-changes in global outcomes. Of course, carbon is only one part of sustainability, and we see in these studies an emphasis on CO2 and energy efficiency, which is always a good idea for the business bottom line. In addition, we also try to include sustainable practices that go beyond CO2 emissions.

The innovations described here should be understood in this wider context. Global strategies translate into national programs, and these are mediated by many factors external to corporate management: national and regional governments, industry regulation, consumer pressure groups and environmental NGOs amongst them. But country managers do more than simply adopt global strategies: they influence and sometimes create new strategies through the practical actions they take, responding to local conditions. In smaller emerging economies, these local adaptations usually stay local; but in China the scale and dynamism are enough to drive change with global significance. The innovations emerging from the front line of production, sourcing, assembly, marketing, consumption and disposal make substantial differences to the overall environmental performance of these firms; they often influence practices up and down the supply chain; and they set new standards for corporate practice. These operational aspects of business management are opportunities for managers to get things right – to solve problems, make new connections, and even to invent new business models. So in this book we concentrate on what managers can do. Our aim is to inspire and inform action. But it's not all positive – there are failures and shortcomings along the way, and we have drawn out some lessons from these too.

In the concluding chapter we present a brief literature review of sustainable supply chain management (SSCM) as it relates to the nine cases in this book, in order to link together the innovative examples presented with the wider ongoing discussion surrounding SSCM best practice. This chapter will give practising managers and students valuable insight into the wider research context.

Table 1.1 The nine companies featured in the case studies

Company	*Fairmont hotels*	*Hewlett-Packard*	*Nestlé*	*SKF*	*Sony*	*Tetra Pak*	*Vanke*	*Volvo*	*Yingli*

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[4] WWF Climate Savers is a global leadership platform which positions multinational corporations at the forefront of the low-carbon economy. The member companies set sector-leading targets for greenhouse gas ('GHG') reduction in their own emissions and work with other companies, suppliers and partners to implement innovative solutions for a clean, low carbon economy. Initiated by WWF in 1999, the Climate Savers program now counts 30 member companies, including Johnson & Johnson, IBM, Nike, Hewlett Packard, The Collins Companies, Xanterra Parks and Resorts, Sagawa, Sony, Tetra Pak, Lafarge, Catalyst, Novo Nordisk, and Nokia Siemens Networks. All of these companies have pledged to reduce their GHG emissions considerably.

Sector	Hospitality/hotel	IT	Food processor	Engineering	Consumer electronics	Packaging	Real estate	Automotive	Clean technology (Photovoltaic)
Country of origin	Canada	USA	Switzerland	Sweden	Japan	Sweden	China	Sweden	China
First established in China	2009	1982	1990	1988	1996	1979	1984	1992	1987
Nature of Chinese operation	Wholly-Owned foreign Enterprise (WOFE)	WOFE	WOFE and Joint Venture (JV)	WOFE	WOFE	WOFE	HQ in China	WOFE	HQ in China, NYSE listed
Size of Chinese operation	4 hotels; Beijing, Shanghai (Peace) and Kunshan (Yangcheng Lake), Nanjing	China HQ: Beijing; Branch companies in 8 provinces; 1 HP lab; 2 plants in Shanghai and Chongqing; 1 call centre in Dalian	China HQ: Beijing; 21 plants in 10 provinces; 1 lab in Shanghai	China HQ: Shanghai; 11 plants and service companies in China; Global Technical Centre China	China HQ: Beijing; 8 plants; 1 software development centre in Dalian	China HQ: Shanghai; 2 plants (Beijing and Hohhot); Design centre in Foshan	HQ: Shenzhen; branch companies in over 20 provinces; Architecture Research Centre in Dongguan	China HQ: Beijing; branch companies in 22 provinces; 1 R&D centre in Jinan;	HQ: Baoding; 4 plants (Baoding; Hengshui; Hainan; Tianjin)

The corporate contexts

These are all companies with centrally defined sustainability strategies, which is why they joined the WWF Climate Savers and signed up to public targets for improved efficiencies, reduced carbon footprint and energy savings. These translate in the Chinese context to 'framework' strategies which set the direction for innovation – for example Tetrapak's '4Rs' (renewing, reducing, recycling, responsibility), Sony's 'Road to Zero' or Vanke's ' Three Star System' offer shaping slogans and messages within which specific actions can be deployed.

But these must be more than aspirational slogans: companies place considerable emphasis on measurement and benchmarking across their global operations, and Chinese plants are included in this competitive process. These case studies provide detailed accounts of specific innovations, including the processes by which changes have been implemented. A useful way to categorize these is by reference to the 'innovation space' that they address. (see Table 1.2)

Table 1.2 Sustainability-led innovation mapped on to Innovation Space framework

Innovation Target	Examples
Product/service offering	'Green' products, design for greener manufacture and/recycling, service models replacing consumption/ownership models
Process innovation	Improved and novel manufacturing processes, lean systems inside the organization and across

	supply chain, green logistics
Position innovation	Rebranding the organization as 'green', meeting needs of underserved communities – e.g. bottom of pyramid
'Paradigm' innovation – changing business models	System level change, multi-organization innovation, servitisation (moving from manufacturing to service emphasis)

Source: Trifilova et al. (2013)[5]

This categorization distinguishes the kinds of changes aimed at – improving products, processes, positioning or the overall business model. Readers of this book will find it helpful to look out for the intended and actual impacts in each case. In Volvo, for example, new packaging for component handling processes brought significant rewards to Volvo and drove similar improvements up their supply chain. In others, the innovation quickly extended beyond original intentions – for example, Vanke's plan for a 'green building' led them to develop standards for the entire industry sector. Nonetheless, managers will do well to clarify their intended innovation space, and to plan accordingly. This will help with practical matters of budgeting and project planning; it will also help them notice when they are being drawn out of that space. For example, you want to make sure you get your own process improvement bedded in, but competition might force you to reposition your offering for new markets – as happened to the Fairmont Hotel featured in this book. Alternatively, you might hope to attract new consumers, but find your attention taken up with improving the sustainability of basic material production – as happened to Nestlé in one stage of the developments described here. So this framework can help you focus where you want to innovate, and also alert you to changes in potential impact.

Managerial activism is a significant feature of these cases. The commitment to more sustainable practices has already been made at the highest levels, and the people we meet in these cases are driving the agenda in their companies and sometimes beyond. But it is worth asking whether these changes are really going to save the planet: does it matter that Volvo recycles its packaging if its trucks are still belching carbon into the atmosphere? Our view is unequivocally positive: yes, it is good to do what we can, and each step changes the situation, opening unexpected opportunities. The important message of this book is that managers can and should improve the environmental and social performance of their companies. Bigger transformations are on the way, and this is one way of making them go well.

However there are clearly differences in the level of ambition that motivates sustainable innovation. While some are excited by the possibilities of entirely new waves of innovation forced into being by the social, economic and environmental pressures facing the planet, others prefer to focus on finding better ways to do what they are already doing. Table 1.3 sets out a simple framework describing three levels of ambition; none of the companies in this book are at Level 0, doing nothing. Several are actively engaged at Level 1, reducing the footprint of their current operations and cleaning their supply chain. Some pitch straight in at Level 2, opening up an innovation space in new products, processes or markets (as described in Table 1.2 above). Several start out at Level 1 and then find themselves setting up new businesses, as Tetrapak found with its recycling initiatives in cities around China. Few set out

[5] Trifilova, A., Bessant, J., Jia, F. & Gosling, J. (2013). "Sustainable Innovation and the Climate Savers' Programme: Experiences of international companies in China", Corporate Governance, 13(5), 599-612,

at Level 3, but in this collection we present at least one candidate – Yingli, a manufacturer of photovoltaic cells. Seizing the opportunity of a new technology and massive demand for clean energy, and backed by the government, this large start-up aimed to disrupt energy markets and dominate this new global sector.

Table 1.3: Levels of sustainability-oriented innovation

Level	Characteristics	Examples
0 Passive/cosmetic	No activity, or 'cosmetic' public relations based statements of intent	n/a
1 Improvement innovation	'Do what we do but better' innovation, taking waste out, reducing footprint of existing processes, efficiency enhancing.	Compliance with externally imposed regulation Commitment to frameworks like FSC Greening of existing processes, products and inter-organizational value chains
2 Opportunity-driven innovation	Creation of new products, processes, services which open up innovation space	New technologies – solar, etc. New process routes and architectures – e.g. low energy bioprocessing instead of thermal cracking
3 System level innovation	Creation of new business models at system level involving reframing of the way value is created and often extending across multiple organizations	Interface Flor re-inventing itself as an integrated 'green' company

Source: Trifilova et al. (2013)

These two frameworks are helpful analytic tools, but as the cases show, no company fits neatly into one level or one innovation space. Most don't even fit into just one sector; for example, when Tetrapak opened a vast new aseptic packaging plant in Hohhot, Inner Mongolia, it was obliged by the regional government to source all its energy from renewables. There was nowhere near enough capacity at the time, so Tetrapak found itself investing in energy generation, and thus impacting the local energy markets. Similarly (though on a much smaller scale), Fairmont Hotels set out to serve locally grown organic vegetables, and when the farm became a tourist destination in its own right, they developed a new service delivering fresh organic produce to homes in nearby Shanghai. One thing that becomes clear in these cases is that innovation occurs not just in a company or even a supply chain; it is part of an industrial ecology in which sustainability is becoming a ubiquitous theme.

The role of WWF

WWF China was established in 1980, with close links to the Ministry of Forestry, one of the first international NGOs who obtained legal status and hence legitimacy in China. Funded largely by WWF organizations in northern Europe, UK and US, it has until recently focused on running national conservation campaigns and fulfilling global programs on biodiversity, climate, water and so forth. The 'Climate and Energy Programme' is one such global program, and includes the Climate Savers, a partnership between WWF and a group of 29 companies (2015) that aim at reductions in CO2 emissions. Climate Savers aims to help companies to deliver sustainable solutions and at the same time drive profitability. They do this in a number of ‘front stage’ and ‘back stage’ activities. Front stage activities include knowledge exchanges, staff training and profile and reputation enhancement. Back stage, WWF experts are engaged in regulatory policy, environmental standards, and climate negotiations. They are probably one of the more corporate-friendly environmental NGOs, with a long tradition of seeking to engage, persuade and facilitate change. But they are also a formidable campaigning voice, and their Panda logo – amongst the world’s best-known brands – attests to their long and prominent engagement in China.

One fruit of this partnership is that Climate and Energy officers in WWF China have strong relationships with counterparts in the Climate Saver companies, and these partners were receptive to the offer to learn from a formal and independent review of their experiences. Hence this book came into being.

Using the cases

The authors have used these cases in MBA and Masters courses on three continents, and several are published through the Case Centre (www.thecasecentre.org). The versions published here are adapted to provide ready examples for practicing managers in China and elsewhere, without the need for teaching notes or supplementary appendices. A summary of the case is provided at the end of each chapter.