

CSR in China

Charts and Supporting Facts

Consumers are demanding more from the companies whose goods and services they use. No longer can brands merely focus on attracting customers to buy their product, and report back the profits to their shareholders. Consumers, as the source of companies' revenue, are expecting more from them in terms of being responsible members of society who take into account all those who are affected by their operations. This is case in China just as it is elsewhere in the world. According to the China CSR Practice Benchmark Report, the number of reports published in 2009 by companies in China regarding their corporate social responsibility increased nearly fourfold from the previous year. Even state-owned enterprises are being required to produce CSR reports.

Against this backdrop, Ruder Finn and Tsinghua University have decided to continue their Tsinghua-Ruder Finn CSR Program survey for a second year. Once more the survey focuses on two key economic sectors: the automobile industry and fast-moving consumer goods (FMCG). It seeks to gauge the knowledge of the public and their attitude toward the CSR performance of companies, and their opinions on specific companies within the two target sectors. The survey also examines the information channels which have the most influence on consumers.

Research methodology

The survey was conducted by Tsinghua Media Survey Lab using the NetTouch network survey system developed by Tsinghua University in combination with a computer-aided telephone survey system. The survey collected responses from 3,166 consumers in the auto industry survey, and 3,099 in the FMCG category. In both cases, the samples were taken from 30 provinces around the country, and a little over half the respondents fell into the 25-34 age category. The majority also had at least a university education. One important difference between the two categories is that for FMCG, the male-female ratio was roughly equal, whereas for the auto industry, male respondents represented 71% of the total sample.

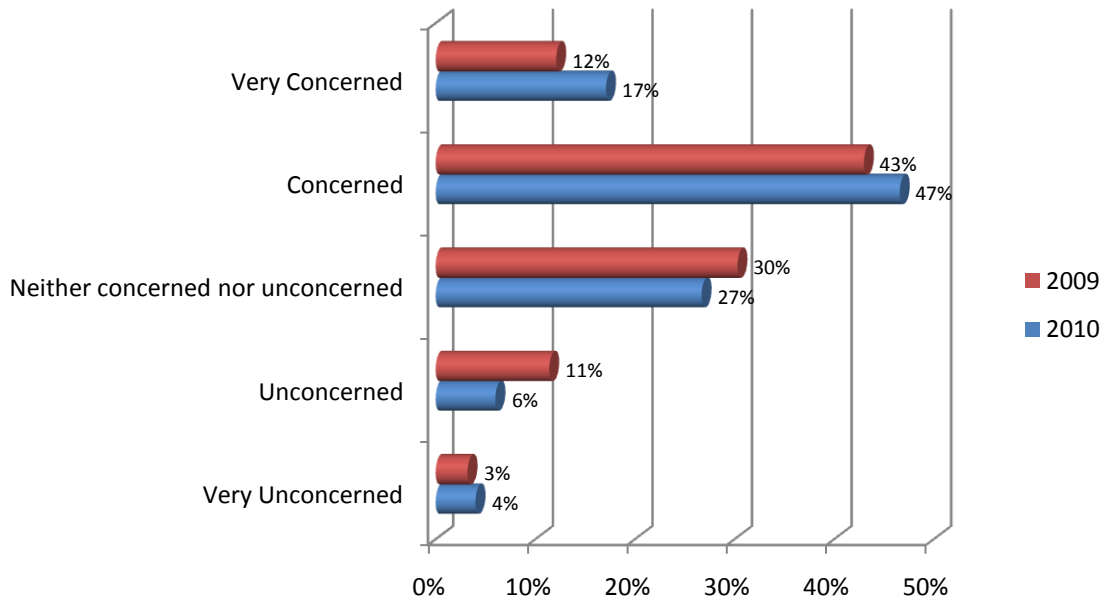
In both cases, the survey focused on nine key areas: business ethics, management integrity, work safety, fair competition, employee rights, product quality, intellectual property rights (IPR), environmental protection, and philanthropy.

Increasing interest in auto industry CSR

Corporate social responsibility continues to be important to Chinese consumers, with well over half of respondents saying they are "concerned" or "very concerned" about it. However, while the level of concern among those asked about FMCG was roughly the same as last year,

there has been a marked rise in interest among those asked about the auto industry. Those who said they were “concerned” or “very concerned” rose to 64% of the total, compared with 55% last year. This is perhaps unsurprising given the widespread media coverage given to the recall of Toyota vehicles since the last survey, even though relatively few Toyota cars were recalled in China. Moreover, government stimulus policies in response to the world financial crisis prompted a rapid increase in car ownership since the last survey.

Figure 1: Change in consumer concern regarding the auto industry

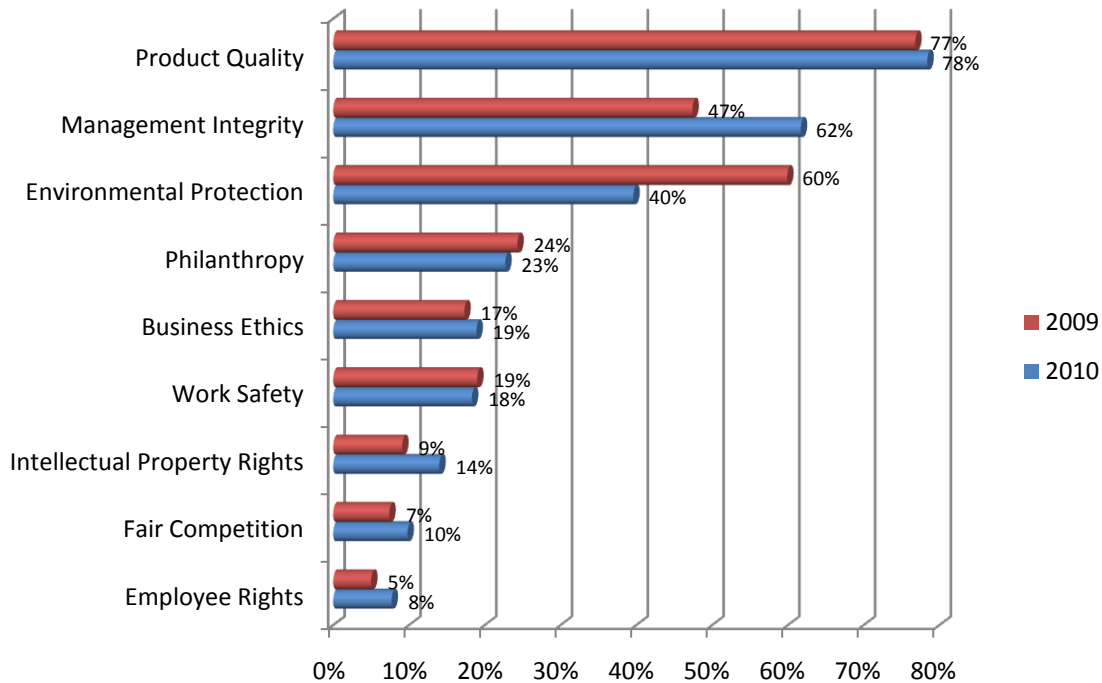


Focus remains on product quality

Product quality remains the No. 1 concern for consumers in both the auto and FMCG sectors, with roughly eight in 10 survey respondents citing this as a concern, up only marginally from last year. However, in the FMCG sector, there has been a startling change in the holder of the No. 2 spot. Last year, environmental protection was the second-most cited concern for both sectors (it remains so for the auto industry), but this year management integrity has shot up into second place, and environmental protection is now a distant third.

“Product quality and employee rights and interests are the foundation of an enterprise’s survival,” said Professor Zhao Shuguang, director of the Tsinghua Media Survey Lab. “The most fundamental social responsibility of an enterprise is to provide dependable products for society.”

Figure 2: Changes in CSR priorities for consumers in FMCG sector



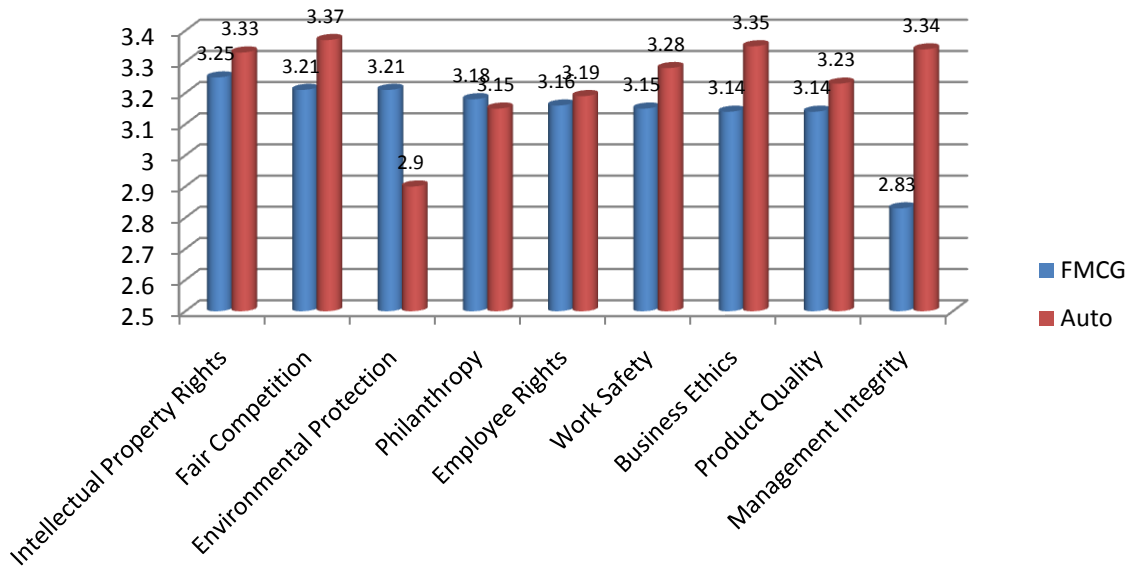
Consumers feel domestic companies have room to improve

In the auto sector, just 27.6% of respondents are satisfied with the CSR performance of domestic companies, down from 32.3% last year. For FMCG, the proportion has declined to 22.7% from 30.6%. Domestic FMCG companies perform best in intellectual property rights, while domestic auto makers are rated best in fair competition.

“Ever since the scandal of melamine-tainted dairy products, consumers have switched to expensive imported products even if they can only barely afford them,” Prof. Zhao said. “This is not a matter of prestige, but a matter of trust in the product.”

We can also see from the chart below that FMCG companies face a problem in terms of “Management Integrity.” They are rated poorly in this category – much worse than last year – even as interest in it is increasing (see Figure 3). Similarly, 71% of respondents in the auto industry survey said they were concerned about companies’ performance in environmental protection, up slightly from the previous year, and this was also the category that performed worst in this industry in 2009.

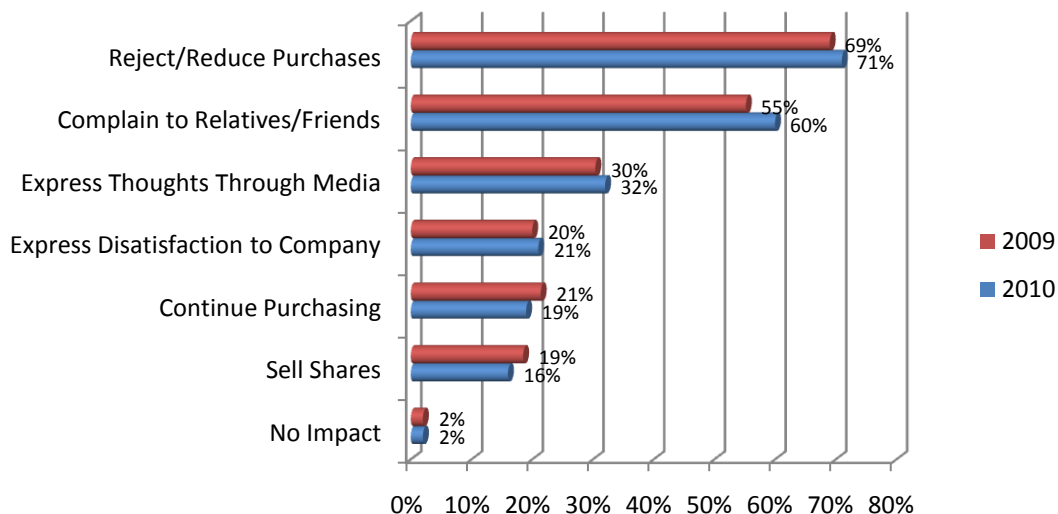
Figure 3: Performance of FMCG and auto sectors in various CSR categories



Penalties potentially high for poor CSR

Consumers are seemingly becoming more unforgiving of companies with poor CSR records. In the auto industry in particular, an increasing proportion of consumers say they will reduce their purchases or stop buying altogether from companies who do not perform well in terms of CSR. The percentage saying they would express their concerns to friends and relatives rose by nearly eight percentage points, demonstrating their appreciation of the power of “word of mouth” (see chart in press release). Although not so strong, the trend is also clear in the FMCG sector.

Figure 4: Changes in impact of poor CSR for FMCG sector



Gap between domestic and foreign companies endures

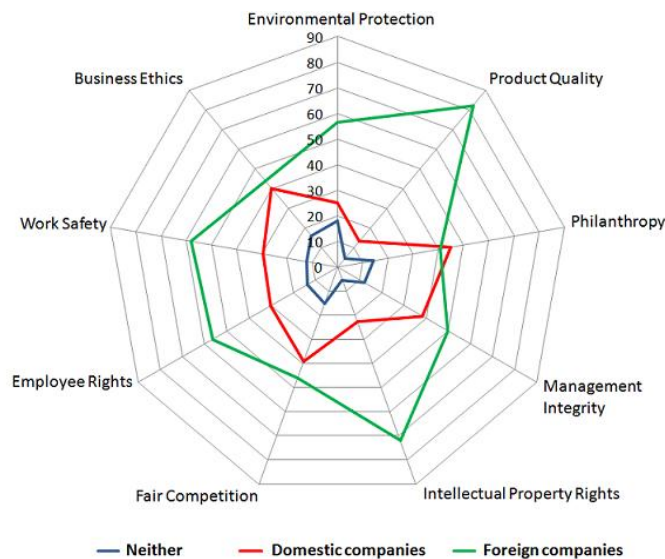
The survey showed that consumers in almost all categories rate foreign brands higher than domestic brands, as they did last year. In general, more than 50% of respondents believe foreign brands perform better than local ones, compared with 20% (slightly less for FMCG) who feel the opposite.

Foreign brands outperform domestic ones in almost all categories quite convincingly, especially in FMCG. The gap is greatest for product quality in both sectors, while it is narrowest for business ethics, fair competition and management integrity, and roughly equal for philanthropy.

Figure 5: Who performs better in the FMCG industry? Chinese or foreign companies?



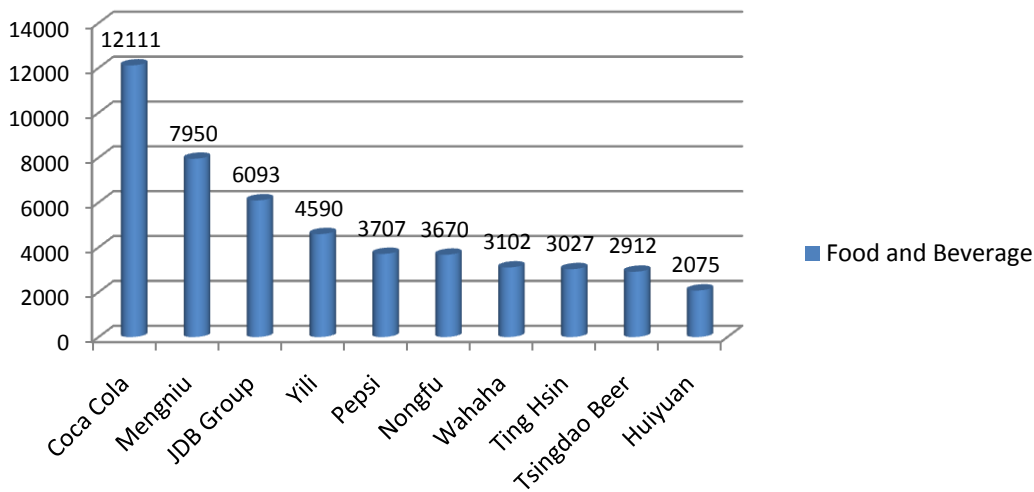
Figure 6: Who performs better in the auto industry? Chinese or foreign companies?



Industry leaders in CSR – FMCG

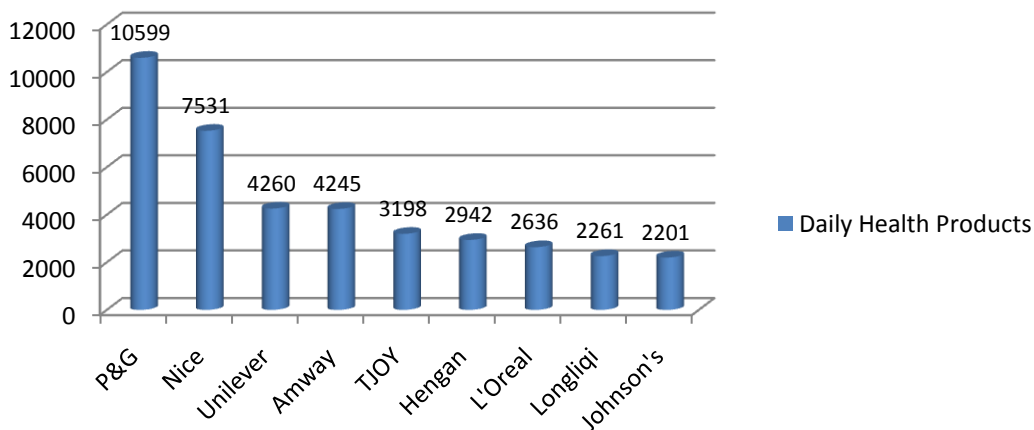
Coca Cola once again tops the Food and Beverage rankings, but below the global soft drinks maker the situation has changed a lot since the last survey. Gone are Master Kong, Wanglaoji and Uni-President, and in are JDB Group (in third), Ting Hsin and Tsingdao Beer. Dairy product makers made significant progress over the year, with Mengniu rising to second place from fifth, and Yili rising to fourth from ninth.

Figure 7: Top 10 brands in the Food and Beverage sector



In the Daily Health Products category, P&G tops the rankings for a second year, with Nice replacing Johnson’s in second spot. Moving in to the top 10 is TJOY (fifth), while Mary Kay, Shiseido and Shanghai Jahwa slip out of the top 10 list.

Figure 8: Leading brands in Daily Health Products sector



Industry leaders in CSR – Auto Industry

Three out of the top four auto brands are domestic, with FAW leading the way, closely followed by joint venture Shanghai VW. Last year, this was an open question, and many respondents may have answered simply “Volkswagen.” This year respondents were forced to identify the brand more specifically, meaning comparison between the two years is not possible.

Figure 9: Top joint-venture auto makers

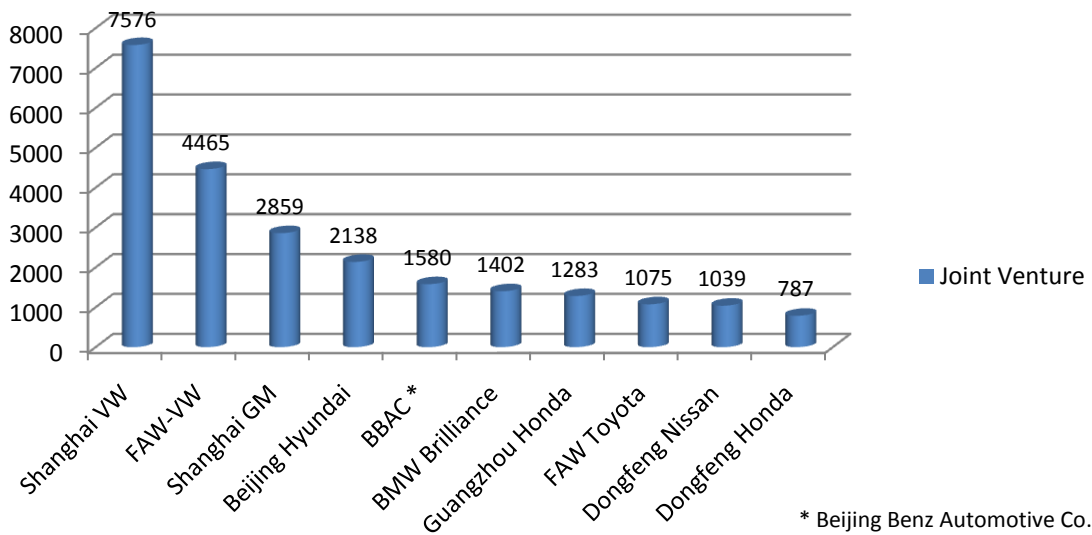
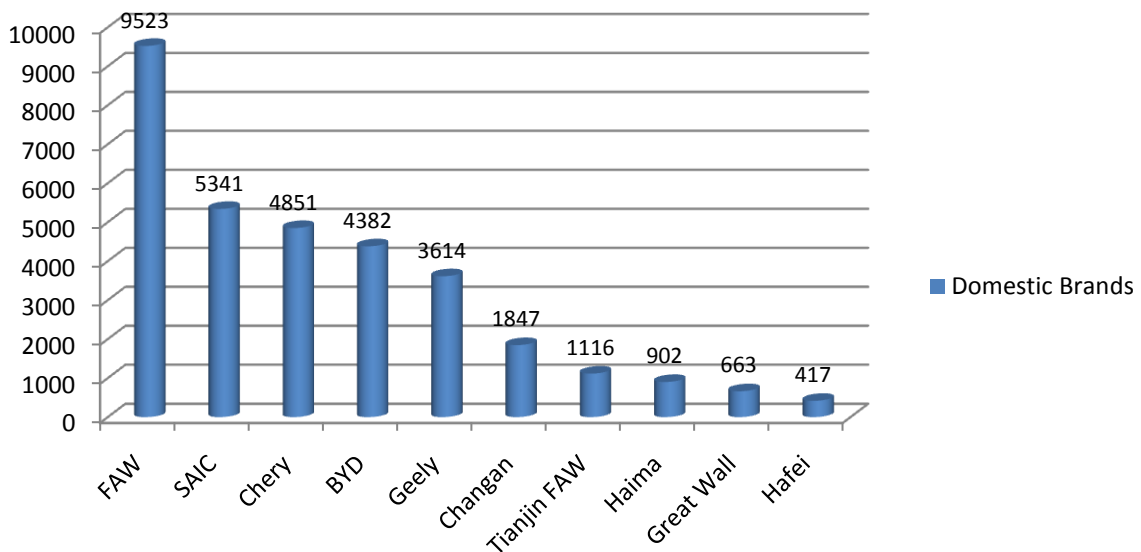


Figure 10: Top domestic brand auto makers



Internet expands dominance in communicating CSR messages

The internet is, even more than last year, the place to go to understand the CSR performance of companies. This is especially true for FMCG – whereas more than a quarter of people cited newspapers as a source of information previously, only a little over 5 percent say they do so now.

Figure 11: Change in preferred information channels for auto industry

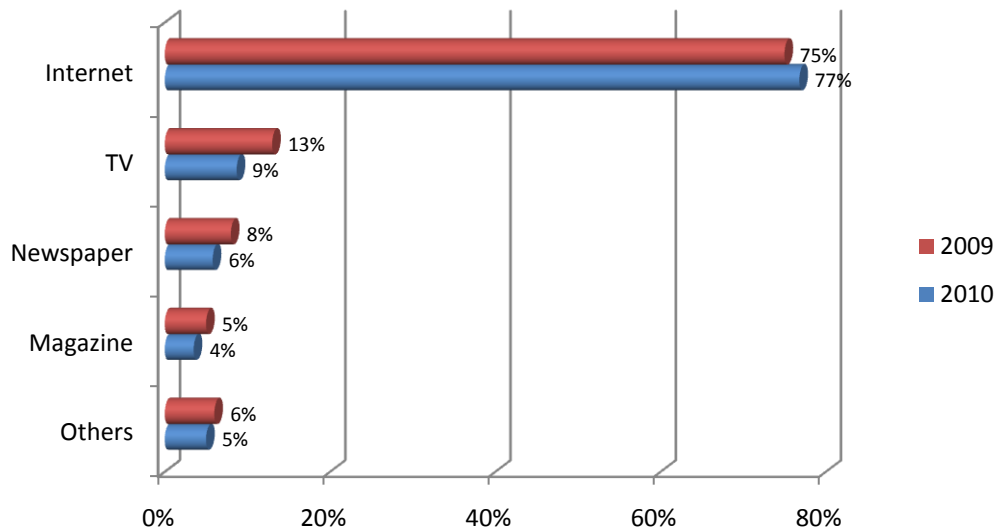
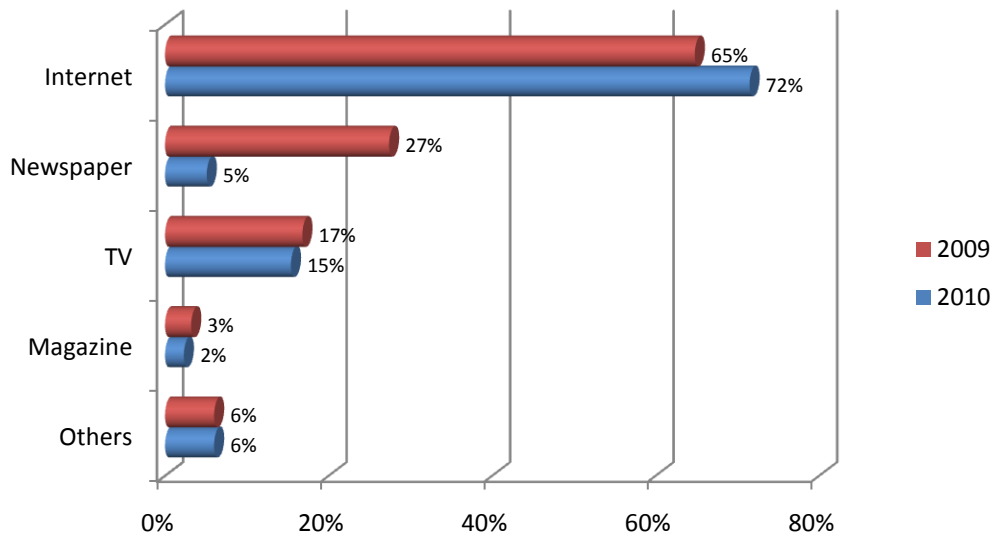


Figure 12: Change in preferred information channels for FMCG sector



Conclusion

Consumers do not view CSR as a single entity, and in fact place a much greater emphasis on a few areas. “Product Quality” is the foremost consideration, followed by “Environmental Protection” and “Management Integrity”. However the Chinese public does not attach much weight to the other aspects of social responsibility. This in part is a result of the still-vague notions of what CSR really is and the lack of overall knowledge among the public. Only when consumers become aware of the more social aspects of CSR, rather than just the aspects that affect them directly, will it be possible to urge manufacturers to undertake CSR in wider fields.

Outstanding enterprises should play a role in guiding consumers so that their purchase behavior will become more responsible, thereby creating a market where more importance is attached to business ethics. In the end, consumers will receive safer and better products and services, while the outstanding enterprises will benefit from consumers’ appreciation of their efforts. The two sides will form a positive cycle to maintain their common interests. When the positive performance of enterprises is repaid by market forces, more enterprises will be willing to voluntarily uphold their social responsibilities.

That the public is becoming more discerning over the wider responsibilities of companies is clear, and next year’s survey will be crucial in understanding whether the trends we have identified over the past two years will continue.

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