



ARE CHINESE COMPANIES FACING UP TO THEIR CLIMATE CHANGE RESPONSIBILITIES?

A perspective from IMD's Forum for Corporate Sustainability Management

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On September 22 this year, Chinese President Hu Jintao announced to participants at the UN climate summit in New York that China would increase its efforts to improve energy efficiency and curb the inexorable rise in Chinese CO₂ emissions. His words were not yet accompanied by figures, an essential prerequisite for a “cool deal” at the critical climate change conference in Copenhagen in December that will review and hopefully substantially revamp the Kyoto Protocol.

The Kyoto Protocol, which came into force in 2005, is the result of a multi-regional and multi-actor bargaining and decision-making process that implies the innovation of entire business systems and the emergence of new regulatory frameworks on a global level. One of the many problems with the current protocol is that while developed countries are aiming for a five percent reduction below 1990 levels by 2012, developing countries have no restrictions. To a great extent, this is because developed countries were largely responsible for the problem in the first place. However, given the level of accelerated economic development in India and China over the last decade in particular, it is essential to get these countries to the negotiating table and to take responsibility for curbing their harmful emissions also.

So how is China positioned to actually back up words with action and take the giant step required? Research carried out by IMD’s Forum for Corporate Sustainability Management (CSM), a learning initiative involving a membership of global companies, throws considerable light on the readiness of Chinese companies to confront the formidable challenge of dealing with the climate change effects of their activities.

CSM carried out a study together with the University of Science and Technology of China six years ago on perceptions of Chinese environmental managers of the state of environmental management and managerial awareness of environmental threats. While Chinese managers admitted to their companies’ significant environmental impacts, they felt that economic and employment factors were impeding progress in environmental performance. Inadequate environmental awareness amongst mainstream managers was prevalent and lack of technical expertise prevented integration of environmental criteria into processes along value-creation chains. Furthermore, management development practices were not evolving rapidly to alleviate these factors. There was considerable ambiguity around regulatory enforcement owing to multiple factors; protectionism, job threats, not enough enforcement personnel. A general “laissez faire” attitude to environmental compliance prevailed, often due to feelings of inertia and powerlessness because of economic and political barriers to progress.

Since 2003 when the research ended, climate change has taken center stage as one of the most prominent sustainability issues; bizarre weather events such as Hurricane Katrina and a series of the highest average temperatures ever recorded helped to push this issue to the

forefront of global political agendas. Increasing scientific evidence such as the Fourth Assessment Report of the Intergovernmental Panel on Climate change (IPCC) - "Climate Change 2007" - made governments, corporations and society in general sit up and listen harder. Actions by high profile figures such as Al Gore and organizations such as the World Wide Fund for Nature (WWF) and Greenpeace have firmly placed climate change front and center on the global political agenda.

In 2008, CSM worked with on WWF's Climate Savers partnership strategy, producing a case that can be used for learning in IMD's mainstream programs¹. Climate Savers is a group of companies that came together in 2000 from multiple industries and that focuses on capacity building (establishing emission inventories and reduction targets certified by a third party) and that initially aimed to create a limited number of "model" companies, at least one from each industry, working on ambitious targets. The hope was that other companies would "follow the leaders".

However, by 2008 WWF had a problem. While the "Climate Savers" had set themselves relatively aggressive targets, and had achieved them, the volume of effort was far too low to make a real difference to the global picture and not enough companies were following the leaders. Climate Savers needed to bolster targets and numbers of companies leading the way. At a strategy workshop at IMD in 2008, WWF came up with four strategic directions for the future: 1) extending reach into the entire value chain of companies (suppliers, customers, products) 2) developing Zero CO2 business models with companies and deepening reach in both 3) high impact sectors and 4) emerging markets, above all, China.

The very problems that IMD identified in its research on Chinese companies were being intensely felt by WWF. Few Chinese companies are first movers or leaders in the area of climate change. This does not mean that there are none; another IMD/CSM research project on sustainable supply chains ending in 2006² showed that in developing economies in particular, new and up and coming companies can take opportunities to virtually "leapfrog" technologies relative to longer established US and European companies that find themselves

¹ Schwandt, A. Ionescu-Somers, A. and Steger, U. 2008 "The WWF Climate Savers strategy: In search of the giant step", IMD case study, Lausanne, Switzerland

² Ionescu-Somers, Aileen, 2006 "Corporate customers and suppliers: How companies influence other companies on corporate sustainability", in Ed. Steger, Ulrich, "Inside the mind of the stakeholder: The hype behind stakeholder pressure", Palgrave, New York

hanging on to old technology and running down their assets for longer than is good for the climate change dilemma.

But because of the systemic problems that IMD had identified in the Chinese business context, WWF is increasingly concerned that companies there will not move fast enough to a clean economy. Moreover, large, state-owned Chinese companies in particular dominate not only the Chinese but in some cases, depending on the industry, even the world economic stage. State-owned companies tend to be even less proactive than privately owned companies in introducing new technologies or carrying out a profound rethink of business systems.

Will Chinese companies be capable and willing to apply and commercialize the currently or shortly available technologies that can stabilize climate change on a vast enough scale? We contend that in China, the additional layers of complexity in the business environment as compared to, for example, the already complex European or US business environment will slow things down more substantially than any of us would like.

Even in the developed world, although the business response to global warming has slowly gained momentum particularly over the last 10 years, global companies tend to opt for cautious incremental improvements in carbon saving as a response to this challenge. While this is definitely better than nothing, more radical process and product innovation is still overly scarce, particularly in key industries such as energy, automotive and aviation. One of ironies is that retaining global competitiveness (and in particular between the US/Europe and China), does not allow companies to jeopardize their economic position by being more ambitious with climate change strategies. Also, companies are to some extent still in denial: although every FTSE 100 company produced a CSR report in 2008, 80 of them identified climate change as a business risk but only 38 had actually established targets for emission reduction. The majority of the FTSE 250 has yet to even acknowledge the issue publically.

And that is why the setting of a global level playing field in Copenhagen in December is such an important enabler for action by all companies. However, in China, changing business people's mindsets, filling substantial knowledge gaps amongst managers and enforcing legislation will be even more formidable challenges than they are already in Europe and the US.

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