

BritCham Shanghai ESG Survey 2022

ESG: a Global Trend with a Long Journey

- *Over 90% of respondents said their firms have set up ESG governance structure within their organisation*
- *71% of surveyed member firms have adopted ESG standards*



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1. Foreword

To better understand how businesses are navigating ESG issues, the trends and related challenges identified by British companies in the China market, the British Chamber of Commerce Shanghai (BritCham Shanghai), in partnership with PwC, invited Chamber members to participate in a survey (93 respondents) in H1 2022. This report is the result of the survey launched for the first time to study firms' engagement and initiatives on their ESG journey.

The voices are collected systematically from various dimensions such as corporate strategy & target setting, organisation and ESG capability, key drivers and obstacles and investment plans, and how they interacted with their business in China.

The findings are not meant to represent the whole of British business in China but offer a sample of what industries have achieved so far.

We thank BritCham Shanghai members that have completed the survey. Furthermore, for completing the research and writing of the report, we thank the PwC China ESG team: Amy Cai, Managing Partner; Steven Zhong, Lead Partner of Sustainable Value Chain; Ken Luo, Senior Director of Sustainable Value Chain; Yanjun Wang, Senior Manager of Sustainable Value Chain; Ivy Liu and Rose Wu, Managers of Sustainable Value Chain.



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Executive Director
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2. Introduction



Methodology

The survey was conducted and distributed to members across industries, from financial services to industrial manufacturing. Ninety-three company representatives responded to the survey; 73% of them are at director level or above.

20% of these organisations were graded by the leading ESG rating agency MSCI, and the leading firms are primarily from the retail & consumer, finance and consultancy sectors.

Figure 1: Breakdown of industry by respondents

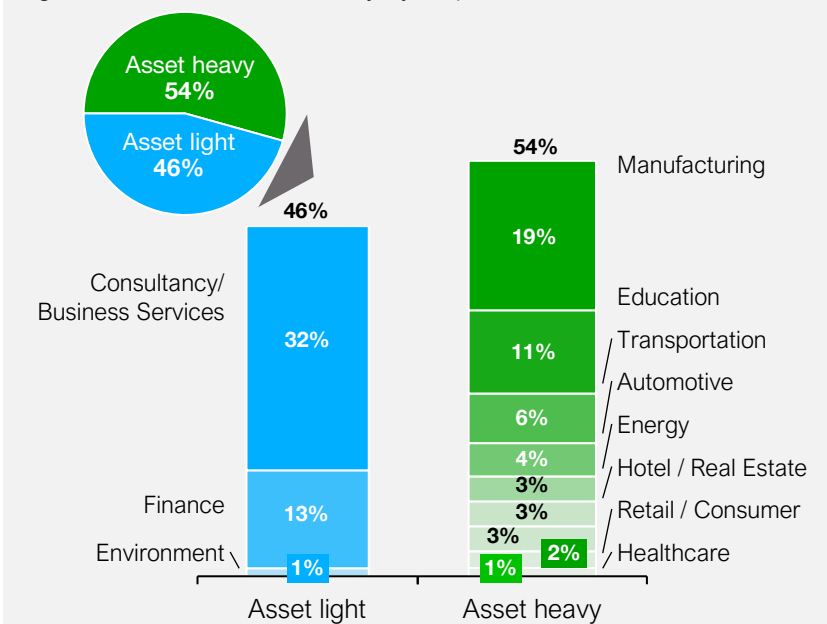
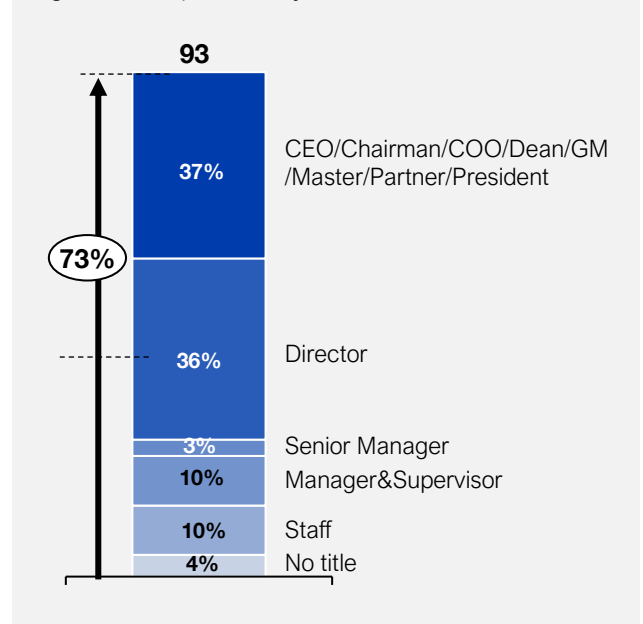


Figure 2: Respondents job title



3. ESG Strategy & Target Setting

As China is playing a more important role in global business, most companies have extended their global ESG strategy to China and developed China tailor-made ESG target.

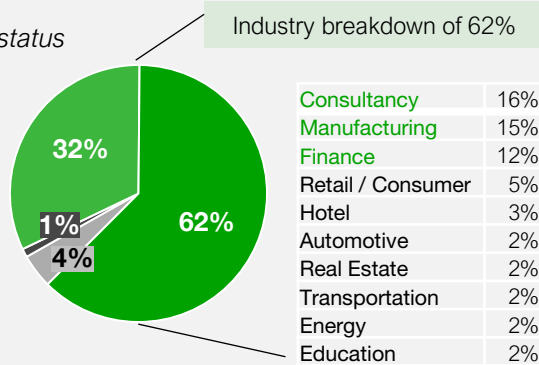
94% of the respondents said their companies have already taken actions on ESG target setting, even though at different stages (see Figure 3).

- 62% of respondents said their global headquarters have already developed an ESG vision and target with detailed plans. 32% are in process of target development. Only 6% are not aware of any ESG vision or target.
- Most (70%) of companies whose headquarters have developed a clear ESG vision and target are from consultancy, manufacturing and finance industries.

Global Targets Setting

Figure 3: Global ESG target setting status

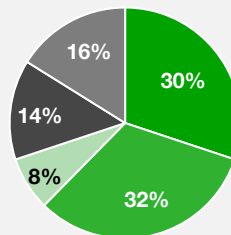
- Yes, we have developed an ESG vision and target with detailed plan
- In process of development
- I am not sure if we have an ESG vision or target
- No



China Targets Setting

Figure 4: China business ESG target setting status

- Yes, our global headquarter has set ESG targets for our business in China
- Yes, our global headquarter sets the ESG framework, and local business leaders tailor the targets for our business in China
- Yes, our local business leaders have set ESG targets for our business in China
- I am not sure if we have any targets for China
- No, we have not set any targets



Most respondents (70%) said their companies have clear ESG targets for their China business (see Figure 4).

- The top-down approach is most commonly seen (62%). 30% of respondents said their companies' local targets are set by global headquarters directly, and 32% said their companies' targets are tailored by local leaders within a global framework.
- Few respondents (8%) said targets are set independently by local leaders.
- Still, one-third of the respondents are not clear about their companies' ESG targets for China business.

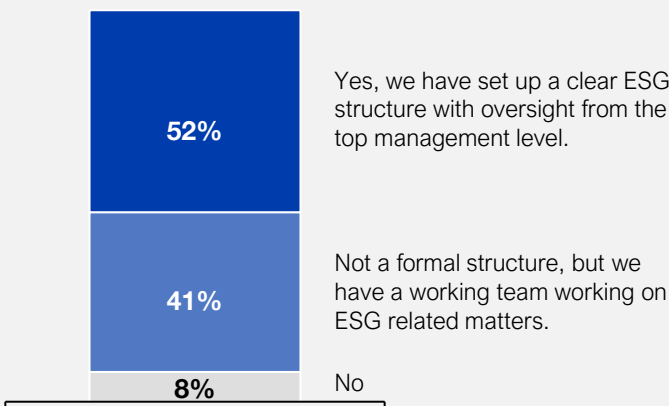


4. ESG Organisation

The evolving emphasis on ESG is raising the bar for board oversight, management responsibility and ESG capabilities across all levels in China. However, some companies lack proper organisation and sufficient in-house capability to drive their ESG initiatives in China.

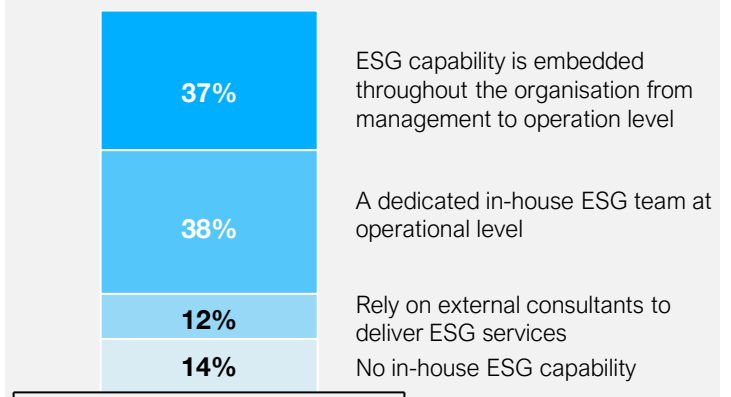
ESG governance structure

Figure 5: ESG governance structure status overview



ESG capabilities

Figure 6: ESG capabilities status overview



- Over 90% of respondents said their firms have set up ESG governance structure within their organisation - 52% have stronger ESG governance structures with oversight from the top management level, while 41% just have dedicated working teams working on relevant issues without a formal structure. (see Figure 5)
- A majority (75%) of the surveyed firms have their own in-house ESG team & capability. 37% of respondents described that the ESG capability is embedded throughout the organisation from management to operational level, and 38% own their dedicated in-house ESG team at operational level. 12% of the respondents claimed their firms rely on external ESG consultancy services. Still, some (14%) of the respondents said their firms don't have any ESG capability established in the organisation. (see Figure 6).
- Further analysis shows that firms with a stronger ESG governance structure have higher internal ESG capability.

5. ESG Policy & Intelligence

As ESG matters have increasingly become the focus of investors and regulators, firms are increasingly seeking to burnish their ESG credentials to respond to pressure from stakeholders. Leading firms rely on multiple sources or professional service providers for latest ESG trends and policies, and have adopted multiple standards.

Application of ESG standards

- 71% of surveyed member companies have adopted ESG standards.
- GRI, 10 principles of UNGC and SDGs are the top 3 adopted ESG standards.
- More than a third (35%) of respondents said their organisations have adopt 2 or more ESG standards.

Figure 7: Commonly adopted ESG standards

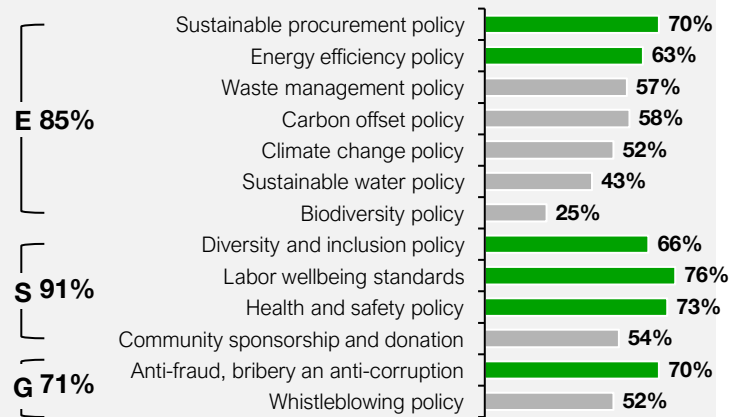


ESG policy focus

Organisations have different areas of focus in ESG:

- 91% establish “S” policies with focus on labor standards and health & safety topics.
- 85% establish “E” policies with focus on sustainable sourcing & energy efficiency.
- 71% establish “G” policies, especially in company ethics like anti-fraud, bribery and anti-corruption areas.

Figure 8: ESG policy by area of concern

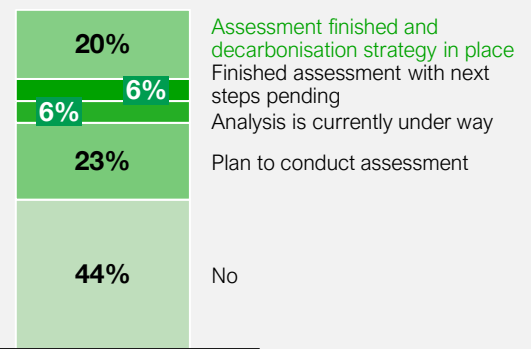


Assessment of China carbon policy

In the context of China’s transition to a low carbon economy, organisations are evaluating the regulatory change at different speeds:

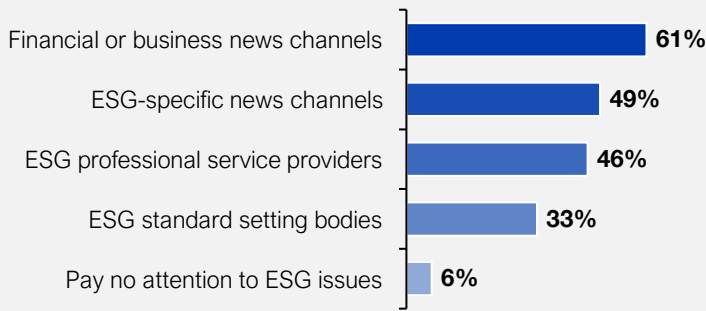
- 32% have assessed the impact of China’s carbon peak and neutrality policy on their business,
- but only 20% of the survey respondents have developed decarbonisation strategy in place.

Figure 9: Reactions to China carbon policy



Latest ESG requirements

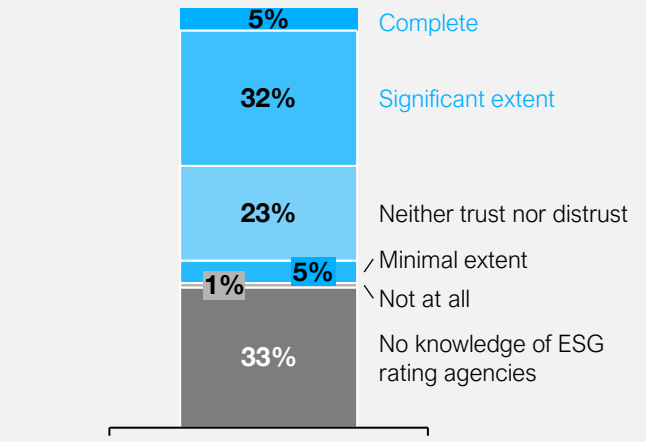
Figure 10: ESG information channels



- Financial or business (61%) and ESG-specific (49%) news channels are most widely used for obtaining the latest ESG trends and requirements.
- Nearly half (46%) of respondents said their firms turn to professional service partners to keep up with the latest ESG trend and policies.

Trust in ESG rating agencies

Figure 11: Level of trust in ESG rating agencies

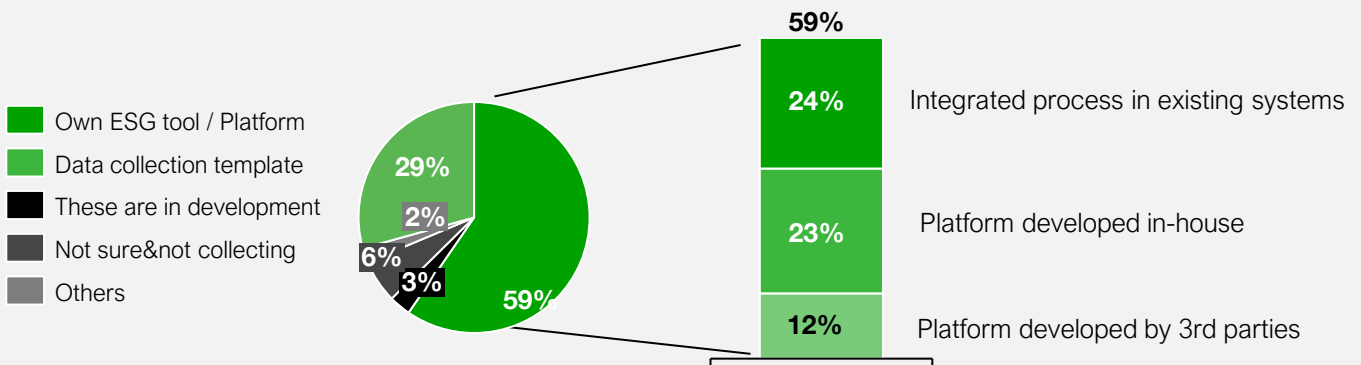


- Only a third (37%) of respondents trust ESG ratings by rating agency.
- 35% have no knowledge of rating agencies.

Tackling ESG data quality and availability

- Organisations are on their way to managing their ESG data in a digital form. ~60% of organisations already have owned ESG tools or platforms for data collection, and ~30% are using offline collection templates.

Figure 12: Management of ESG data



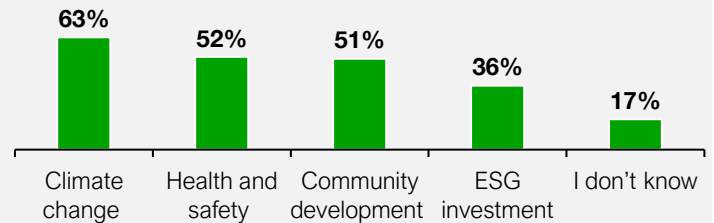
6. ESG Drivers

It's widely recognised that ESG can add value to firms' valuation, market differentiation, brand image, and contribute to compliance and risk control, which are key drivers behind every ESG initiative.

Key stakeholders' focus

- Actions that organisations are taking in the face of climate change is currently the hottest topic among key stakeholders. (see Figure 13)

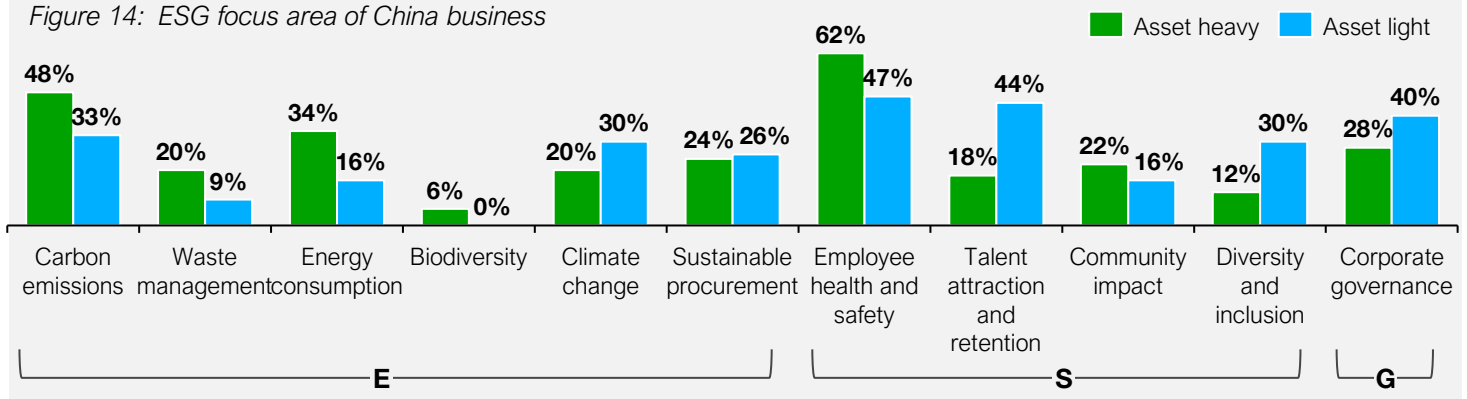
Figure 13: ESG focus area of key stakeholders



ESG Issues in China

- Employee health & safety and carbon emissions are the top 2 issues of concern in China.
- Asset heavy industry tends to focus more on “E” issues while asset light industry considers more on “S” issues.

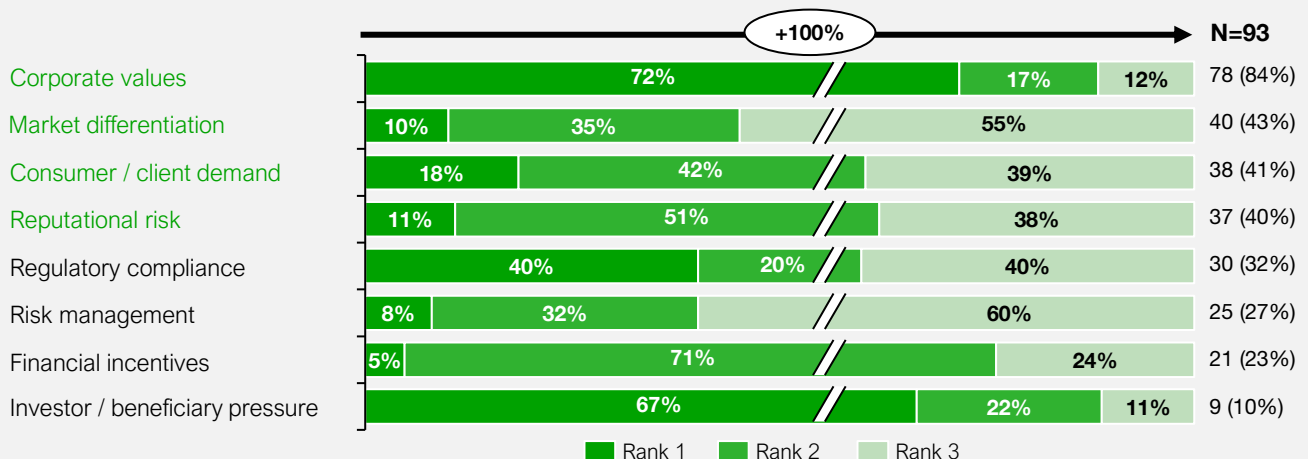
Figure 14: ESG focus area of China business



ESG drivers in China

- Corporate values are the most widely (84%) considered incentive for ESG activities in China, followed by market differentiation (43%), consumer/client demand (41%) and reputational risk (40%).
- For those who have chosen “corporate values” as an incentive, 72% rank it as the top driver. And for those who have chosen “investment / beneficiary pressure”, 67% rank it as top driver.

Figure 15: Top 3 ESG drivers in China



7. ESG Investments

Even though ESG’s value proposition has been well received, before its value can be properly quantified, firms are still hesitating to invest. Unclear government regulation and policy is another key reason influencing investment decisions.

Hot investment initiatives

- Social topics (e.g. employee and social benefit programs) and ESG new products /services are hot ESG initiatives in 2021-2022. 2022 is to see a slight rise in “E” topics. (see Figure 16)
- Asset heavy companies take more action on environmental initiatives than asset light companies. (see Figure 17)

Figure 16: 2021 ESG investment initiatives versus 2022 planned ESG investment initiatives

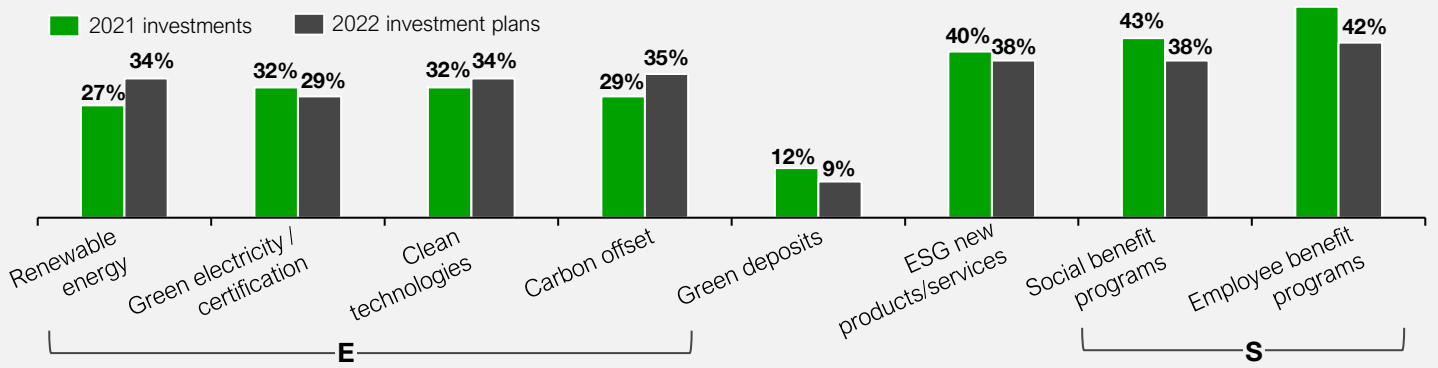
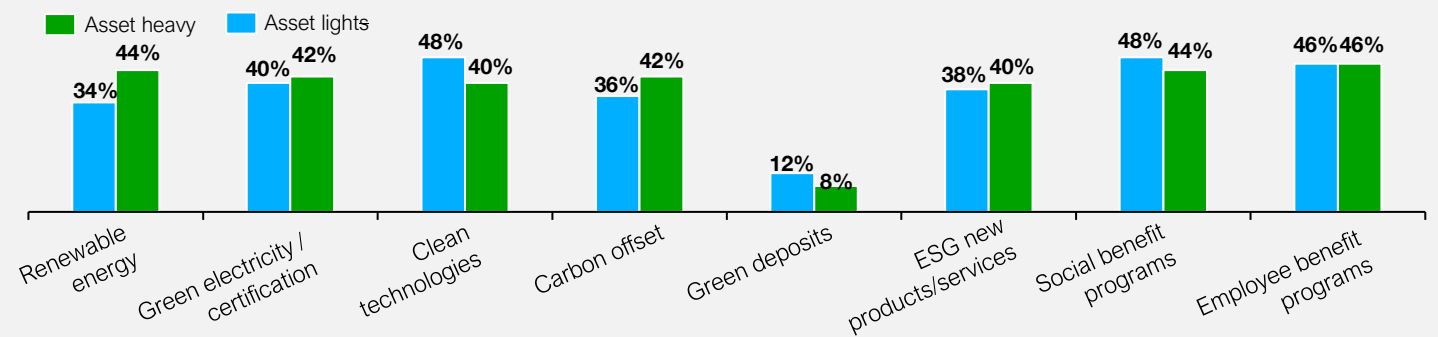


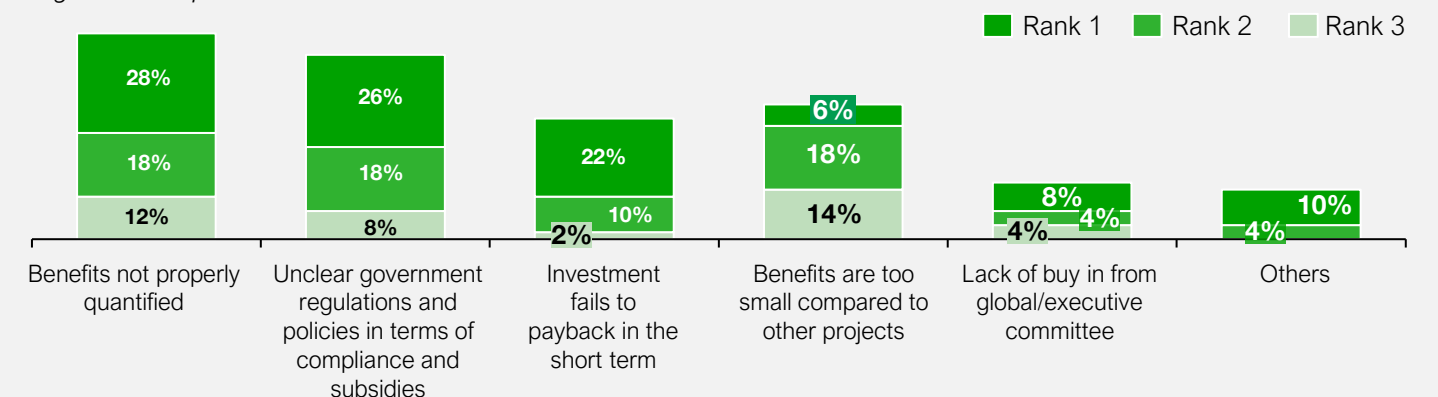
Figure 17: 2022 ESG investment plan: asset heavy firms versus asset light firms



ESG investment barriers in China

- “Benefits not properly quantified” and “unclear government regulations” are 2 most commonly identified barriers.
- Asset heavy industries rely more on government compliance requirements or subsidies when making ESG initiative decisions.

Figure 18: Top 3 ESG investment barriers in China



Financing plan for firms' ESG initiatives

- Firms are indecisive about their financing plan for ESG-related programs. (see Figure 19)
- Majority of respondents don't have experience with green finance. Survey results show asset heavy organisations are more interested in applying green finance than asset light organisations. (see Figure 20)

Figure 19: Financing arrangements for ESG initiatives

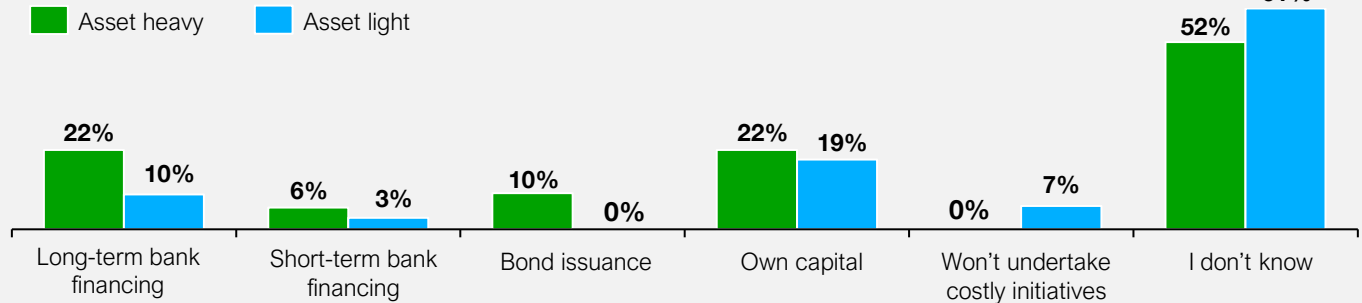
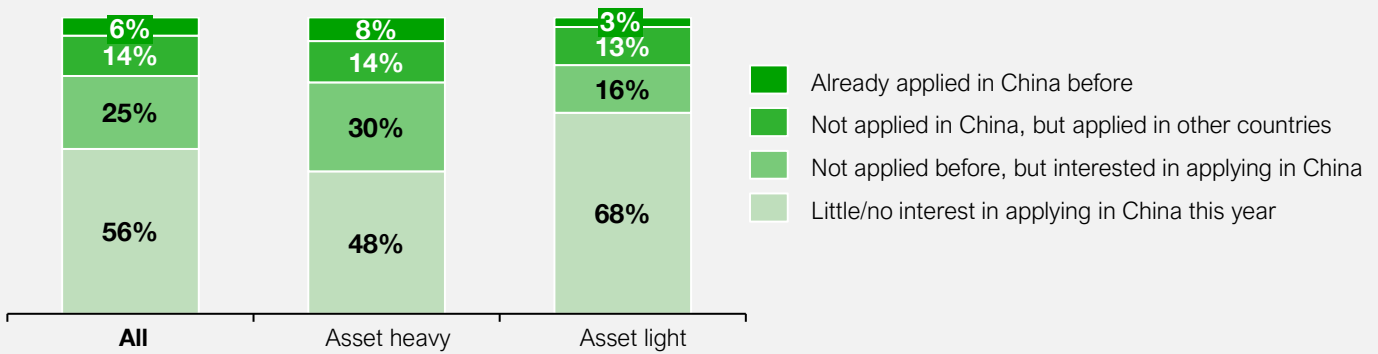


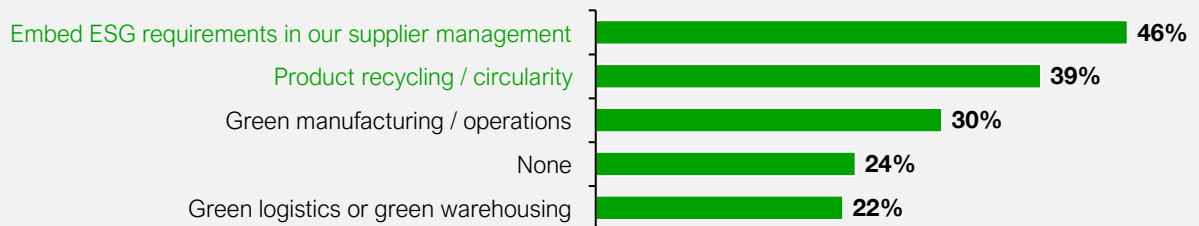
Figure 20: Green finance experience



Green supply chain initiatives in China

- Majority of surveyed members plan to launch green supply chain initiatives in China, around half of them (46%) would like to start by integrating ESG factors into supplier management or procurement processes. Circular economics comes in 2nd place, especially for organisations from the healthcare and environment industry.

Figure 21: Green supply chain initiative plan in China



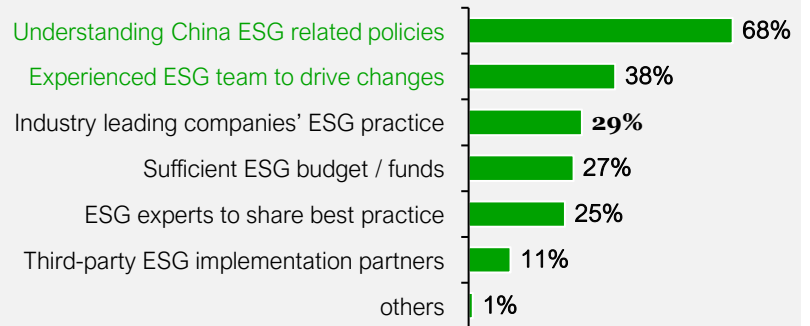
8. ESG Challenges

The development of ESG in China is largely driven by policy incentives and is gaining momentum as China seeks to reach its decarbonisation goal. It is certain regulatory landscape and ESG eco-system will develop rapidly. Firms in China will have a long journey ahead.

Resources needed for ESG implementation in China

- 68% consider “understanding China ESG policies” is critical for ESG implementation in China.
- 38% consider having an “experienced ESG team to drive changes” is also key.

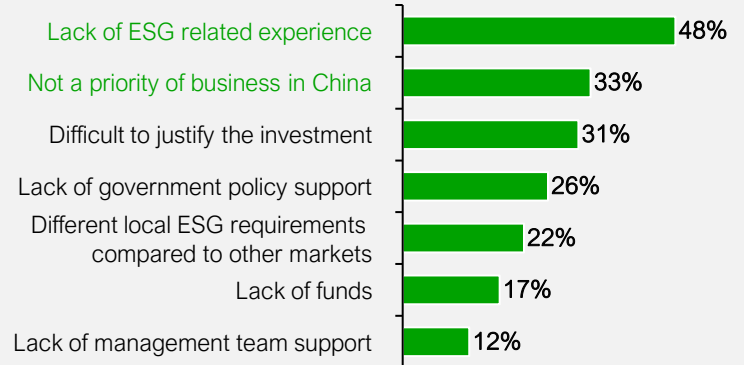
Figure 22: Top 2 resources critical for ESG implementation in China



Challenges of ESG implementation in China

- 48% agree that “lack of ESG related experience” is the biggest challenge.
- 33% consider that it is also a major challenge that “ESG is not a priority of business in China”.

Figure 23: Top 2 challenges for ESG implementation in China



Top voted ESG topics

76% ESG related regulatory updates in China	47% ESG eco-system in China	44% Industry ESG best practice	41% Supply chain sustainability
38% ESG reporting frameworks and requirements in China	27% ESG ratings and improvement	24% Climate risk assessment and mitigation	18% Clean technologies

9. About PwC

PwC Mainland China, Hong Kong SAR and Macau SAR work together on a collaborative basis, subject to local applicable laws. Collectively, we have over 800 partners and more than 20,000 people in total. We provide organisations with the professional service they need, wherever they may be located. Our highly qualified, experienced professionals listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they seek. Our industry specialisation allows us to help co-create solutions with our clients for their sector of interest.

We are located in these cities: Beijing, Shanghai, Hong Kong, Shenyang, Tianjin, Dalian, Jinan, Qingdao, Zhengzhou, Xi'an, Nanjing, Hefei, Suzhou, Wuxi, Wuhan, Chengdu, Hangzhou, Ningbo, Chongqing, Changsha, Kunming, Xiamen, Guangzhou, Shenzhen, Macau, Haikou, Zhuhai and Guiyang.

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10. About BritCham Shanghai

The British Chamber of Commerce Shanghai (BritCham Shanghai) is a dynamic network of international businesses with a common interest in China. Our members are the pulse of our organisation – we advocate best practice; we share knowledge; and we build trusted and long-lasting friendships. **Let's connect.**

Our purpose is to make connections. Connections that open opportunity, empower businesses and unite our community in China.

Members from all over the world join BritCham Shanghai to gain access to China's most dynamic trading hub, Shanghai. With over 250 member companies already operating in China, we provide the best possible on-the-ground intelligence for companies and brands hoping to grow in China.

BritCham Shanghai delivers value to its members through the advocacy of policies and industries; timely knowledge sharing and insights; as well as community based activities.



Advocacy



Knowledge



Community

ESG Committee

The Chamber's ESG Committee advances international businesses sustainability efforts and ESG impact in China. Through peer support and sharing of experience, knowledge and expertise, we endeavour to help to develop an eco-system of force for ESG best practices in China and the global market.

Chair: Steven Zhong, Lead Partner (ESG – Sustainable Value Chain), PwC

Chamber Executive Committee Sponsor: Linmao Li PhD, Chartered Insurer, ACII

Ex-Officio Member: Chris Dunn MBE, Head of Environment and Infrastructure, Department for International Trade, British Consulate-General Shanghai

Members: Angela Chen, Corporate Responsibility, Greater China, IHG; Antoine de Guillebon, Head of Strategy and Planning, HSBC; Siyao Jiang, Partner, ERM; Dr. Li Nan, Operations Director ENR China, Johnson Matthey; Dr. Shameen Prashantham, Associate Dean (MBA), Professor of International Business & Strategy, CEIBS; Lloyd Roberts, Vice President-Trading Division China, Jaguar Land Rover; Cecilia Wang, Vice President, Comms & Advocacy, bp China; Fiona Wang, Sustainability Associate Director, Standard Chartered Bank; Frederick Wong, Associate Director, Arup; Iris Wang, Head of Corporate Responsibility, Burberry China; Terry Zhou, EHS and Sustainability Manager, SpiraxSarco; Will Zhou, Senior Lawyer, Dentons.

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