Road to Transparency: Relationship to Risks and How It Is Perceived and Handled by Chinese Extractive Companies Involved in Overseas Investment

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Abstract: This report is the result of a study project conducted by SynTao Co. Ltd. (SynTao) and the School of Economics and Management at Tsinghua University (Tsinghua SEM) from October 2014 to June 2015 on Chinese extractive industry's overseas investment transparency and risk management. Through a comprehensive case study and survey, the study set out to understand the perception of Chinese extractive companies on social and environmental risks and the factors that differentiate companies' disclosure-related behaviors. It is found that although most responding companies acknowledge the role of transparency in mitigating the companies' overseas investment risks, only 28% of the companies surveyed knew and implemented the transparency-related international rules or initiatives, among which the United Nations Global Compact and the Global Reporting Initiative (GRI) have the highest cognition and participation. The Guidelines for Social Responsibility in Outbound Mining Investments promulgated by China's Chamber of Commerce of Importer and Exporters in Metals, Minerals, and Chemicals and the Extractive Industries Transparency Initiative (EITI) focusing on the extractive industries, also, have relatively high awareness. Companies' official websites are the dominant mechanism for disclosure, while the importance of corporate social responsibility (CSR) reports is also well recognized. The companies with longer overseas investment histories demonstrate more sophisticated skills in handing transparency, as do state-owned companies and public companies. The content analysis of country-specific CSR reports issued by Chinese extractive companies in host countries indicates that the effectiveness of disclosure is worth noticing. Finally, in this study, challenges and opportunities for Chinese extractive companies are discussed, followed by implications for both practitioners in the industry and policy makers.

Keywords: Extractive industry, Chinese overseas investment, transparency, risk management

Introduction

China's overseas investment has grown rapidly over the past decade. In contrast to the overall trend of global direct investment, which shrank annually by 8% from 2011 to 2014, China's overseas direct investment grew with a compound annual rate of 16% (Ernst & Young Knowledge Management Center, 2015). In 2014, Chinese investors invested directly in 6,128 overseas companies in 156 countries across the world, with a total amount of investment reaching US$116.0 billion, and China's inward and outward investments approached parity for the first time (China Ministry of Commerce, 2015). In the next five years, it is estimated that China's outward direct investment will maintain a growth rate of above 10%, which means that the amount of outward direct investment will exceed that of inward investment in the same period (China Ministry of Commerce, 2014).

After years of efforts, China's overseas investments have become ever more sophisticated. Besides the increasing experience in global business management, firms involved in overseas investment have made continuous progress in terms of mergers and acquisitions, technology export, brand investment, market development, channel development, and construction of globalized talent team, among others. At the same time, Chinese companies investing overseas face growing competition from international markets and mounting social responsibility risks, including issues concerning operation in compliance with local laws and regulations, fair operation, localization and labor practice, ecological and environmental protection, community participation and social contribution, as well as stakeholder engagement, transparency, and cross-cultural integration (Li, 2014).

Among the numerous industry sectors engaged in overseas investment, the extractive industry is one of the most noteworthy sectors. On the one hand, energy and minerals investments are always of high interest among investors seeking overseas assets. In 2014, related transactions accounted for 16% of the total amount of M&A transactions (Ernst & Young Knowledge Management Center, 2015). On the other hand, due to the industry-specific characteristics, extractive companies also face more risks, especially the social responsibility risk. Therefore, the focus of this study is to explore the social responsibility risk of the extractive industry's overseas investment from the transparency perspective.

In 2014, SynTao and Tsinghua SEM partnered to launch a study project on Chinese extractive industry's overseas investment transparency and risk management. The aim of the project is to achieve the following objectives: (1) to understand the perceptions of Chinese extractive enterprises of social and environmental risks; (2) to understand the relationship between transparency and overseas investment risk management, and the influence of existing compulsory and voluntary global transparency initiatives on Chinese extractive companies with overseas investment; (3) on the basis of promoting communication among multiple parties, to give suggestions to companies and relevant government agencies on how to enhance the corporate social responsibility (CSR) risk awareness and improve transparency and risk management capability.

Transparency Trend

It has become a development trend in recent years that companies have become increasingly transparent, which is prominently reflected from the CSR reports published regularly by companies. A report published by KPMG in 2013 showed that an increasing number of enterprises disclose information through responsibility reports. This growth trend is especially prominent in emerging economies. In 2013, nearly three-quarters (71%)

of the surveyed enterprises in the Asia-Pacific region published responsibility reports, a dramatic increase from the 49% in 2011 (KPMG, 2013). CSR reports have become a business card of large companies. Most of the Fortune Global 500 companies have issued their own CSR reports. In China, the report number is also on the rise. The SynTao statistics indicated that the number of CSR reports publicized in 2014 within the People's Republic of China reached 2,032.

Besides the willingness and efforts of enterprises, the external stress and demands also contribute to the transparency improvement, many countries, including China, promulgated laws and decrees to stipulate the form and content of CSR reports. Some large stock exchanges also caught up the trend and launched corresponding initiatives. The three most used stock exchanges for Chinese companies, the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, have all developed relevant requirements targeting the CSR reports of their listed companies.

Transparency Rules of the Extractive Industry

Studies have found that company characteristics, such as size, industry type, and business location, all impact transparency (Lewis, Walls, & Dowell, 2014). Since the extractive industry has remarkable potential influence on the ecology and environment, and the operations mainly locate in less developed countries, involving sensitive problems such as natural resource exploitation, it is of high corruption risk. As a result, its lack of transparency has caused much concern with stakeholders and is increasingly putting pressure on the companies.

Over the past decade, a pattern where the general principles and special principles were integrated and the global framework and regional frameworks coexisted was formed under the close attention of the international society to the extractive industry's transparency. Besides traditional regulators and international organizations, continuously pushing extractive industry's transparency, specialized international agencies were also set up to boost the extractive industry's transparency (Figure 1).

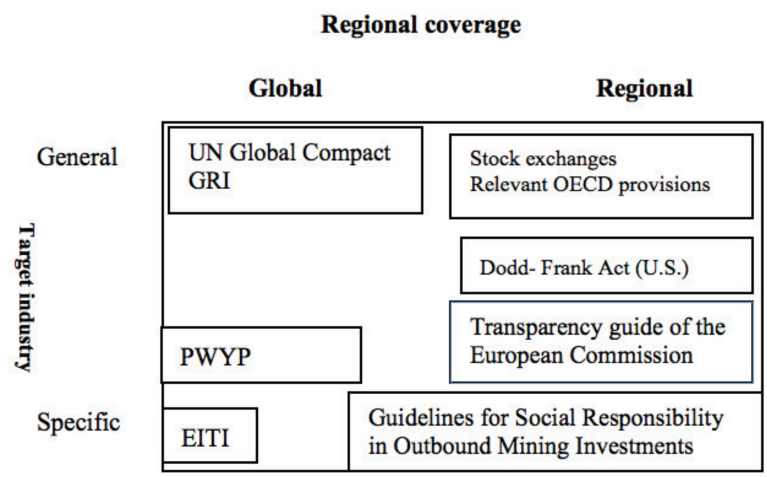

Figure 1. Regulations and pattern about extractive industry's transparency

The Extractive Industries Transparency Initiative (EITI) is the most noteworthy global initiative in this field; it was first launched in 2002 at the World Summit on Sustainable Development in Johannesburg for the purpose of improving corresponding governance of resource-rich countries by publicizing the amounts paid by oil, gas, and minerals companies to the government and the government's revenue information. After a decade of development, this initiative has become the most effective and widely used payment disclosure system in oil, natural gas, and mineral extractive industries. Currently, 48 countries have become members of EITI, agreeing to meet the EITI requirements; in addition, many other countries have announced intentions to participate in EITI and are now establishing institutional arrangements needed.

Since 2010, governmental organizations in Europe and North America have attached more attention to the transparency of the extractive industry, and incorporated it into legal supervision. In 2010, Sec. 1504 of the Dodd-Frank Act required the extractive enterprises that are involved in the commercial development of petroleum, natural gas, and mineral resources to disclose the payments to the US and foreign governments. This requirement was applicable to all companies listed in the U.S.A., regardless of headquarter location. It was originally planned that the extractive companies should make disclosure as from the fiscal year after September 30th, 2013, but given the stress and litigation actions of petroleum enterprises, the United Sates Securities and Exchange Commission postponed it for adjudication in 2016. In 2013, the European Commission adopted the Accounting and Transparency Directive, which would require the EU petroleum, natural gas, mineral, and lumber companies to publicize the information regarding the payments to outbound governments, and the UK, France, and other countries have begun to implement the suggested legislation. In 2014, the Canadian federal government officially announced the Extractive Sector Transparency Measures Act, requiring the companies engaged in the business development of petroleum, natural gas, and minerals to publicly disclose the payment to government and domestic government agencies in business operation. This act has been in effect since June 1, 2015 (Government of Canada, 2015).

Moreover, internationally, organizations such as OECD, the Global Reporting Initiative (GRI), and Publish What You Pay (PWYP) have paid close attention to and dedicated to boosting the transparency of the extractive industries.

As early as in 2006, China's Ministry of Finance has stated in its Corporate Accounting Principles No. 27 – Oil and Gas Exploration that companies are required to disclose information related to oil and gas exploration so that the reporting standards for oil and gas accounting can be maintained. In 2008, the Shanghai Stock Exchange issued "Format Guidelines for Interim Announcements of Listed Companies No. 18: on Acquisition and Transfer of Mineral Rights" to further regulate the disclosure behavior of listed companies. In the same year, the Shenzhen Stock Exchange announced its Memorandum No. 14 on Disclosure—Disclosure of Mineral Rights Related Information, which aimed at guiding the reporting of mineral rights-related information, so that the risk of mineral resource exploration can be sufficiently disclosed and the legal rights of investors can be protected. In 2011, initiatives were taken by the Shenzhen Stock Exchange to influence the small and medium-sized listed companies, with the issuance of Memorandum No. 6 on Disclosure for Companies Listed in the SME Sector—Investment on Mineral Rights. The guidelines specially aiming at outbound mining investments were published in 2014. The Guidelines for Social Responsibility in Outbound Mining Investments instructed by the Ministry of Commerce of the People's Republic of China and China Chamber of Commerce of Importers and Exporters of Metals, Minerals and Chemicals was officially promulgated at the end of 2014, which constitutes a voluntary social responsibility standard for China's outbound mining industry. The Guidelines emphasized that Chinese companies should undertake social responsibility by proactively investing abroad. Disclosure and transparency are the principal focus of the Guidelines.

Action Mechanism of More Transparency and Less Risk

The changes in extractive industries transparency rules have pressed the extractive companies to disclose more information than before. However, many extractive companies go beyond mere compliance in disclosure; rather, they implement a proactive and multi-facet approach to transparency, resulting from strategic and capability development considerations. On the one hand, along with the evolution of rules, the enterprises, in the course of study, will improve their communication skills and form more proactive and effective disclosing manners; on the other hand, more and more companies have realized that the operational risk is closely related to disclosure, and improvement in transparency will reduce the potential risks to a certain extent.

The core of the action mechanism between more transparency and less risk is "Corporate Legitimacy," which constitutes the foundation for a company to operate legitimately in the world, holding the legal license in the traditional sense and the social license in the CSR perspective. The traditional ideas hold that as long as a company retains a legal license, it is authorized to operate righteously. However, the CSR movements over the past decades, especially the anti-sweatshop movement and Not-In-My-Backyard (NIMBY) movement, showed the limitation of this narrow understanding. Companies can only operate safely, steadily, and continuously with both the legal license and the social license intact.

The social license of an enterprise reflects the expectation of stakeholders towards the enterprise, which governs the extent to which an enterprise is constrained to meet societal expectations and avoid activities that stakeholders deem unacceptable (Gunningham, Kagan, & Thornton, 2004). This license exceeds the legal category and is subject to the judgment of core stakeholders. In the case of extractive enterprises, these core stakeholders include the local government, local residents, local employees, as well as upstream and downstream partners. If demands and expectations of these groups are not met, the business operation will bear significant risks. The root cause of these risks is that the corporate legitimacy is denied.

The disclosure and transparency principle emphasizes that the extractive companies disclose information properly. Non-financial information, such as compensation and contribution to local communities, should be included. At the same time, companies should maintain smooth communication channels and interactions with stakeholders. As a result, the legitimacy of the companies can be secured. The potential risks of a company (including the risk of non-compliance with disclosure requirements and other CSR risks) will be prevented or mitigated effectively. Therefore, proper disclosure and transparency will not increase risks but reduce the risks effectively. This is the action mechanism of more transparency and less risk (Figure 2).

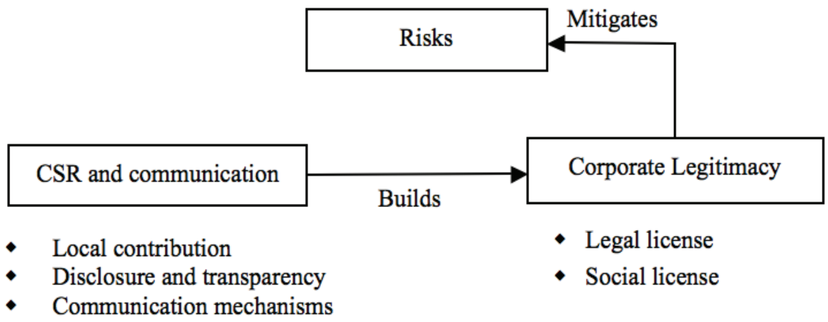

Figure 2. Action mechanism of more transparency and less risk

This mechanism, in essence, is to balance the business interests and social interests for coexistence and co-prosperity, which reflects the new concept of "resource for development" in recent years. This concept aims at breaking the "resource curse" in the economic development history. The "resource curse" refers to the counter-intuitive notion that countries with an abundance of natural resources, such as petroleum, natural gas, or minerals, tend to have less economic growth, more conflicts and corruptions, and comparatively slower development than countries with less natural resources. Therefore, the abundant resources have not benefited local communities but triggered various crises. The "resource curse" happens for many reasons, including (1) some companies do not have a long-run perspective; they only aim at resource exploitation, access to international markets, or to gain profits in their home markets through these resources, and, consequently, local social development is the least of their concerns; (2) some local governments of the less-developed countries have outdated governance philosophies and serious corruption problems; the funds originating from resource exploitation have not benefited the local communities but just widened the gap between the rich and the poor and triggered a vicious spiral. Organizations like EITI believe that the international community, when talking about natural resources, should adhere to the concept of "resource for development"; only in this way can the "resource curse" be broken. However, this course will not occur naturally and is subject to external force, the key levers being disclosure and transparency, through which the real owner of resources (namely, local communities) can exert proper supervision to make sure that government and extractive companies share the value of resources. From the perspective of extractive companies, this is likely to weaken the short-term benefits, but, in the long run, the improvement in political stability and civil society of the host country will make the business of the extractive companies develop more safely, continuously, and steadily.

Methodology

Several methods are implemented in the study, including literature review, corporate interviews, fieldtrip studies, questionnaire surveys, and focus group meetings (and workshops) with stakeholders. Through this comprehensive and in-depth methodology, we expect to advance our understanding of the transparency issue residing in the extractive industry's overseas investments, and, accordingly, to give feasible suggestions.

Surveys are perhaps the most widely used method in understanding opinions; consequently, we adopted the use of surveys as the core research method in this study. The questionnaire includes questions on company attributes, transparency perception, transparency practice, and communication with stakeholders. Besides open-ended questions, several measurement methods are used, including 7-point Likert-scale measures for perceptions, categorical measures, multiple response measures, and ranking. The questionnaires were sent and filled out online, and 65 valid questionnaires were collected. Among the 65 questionnaires, 78.46% of the respondents are from state-owned enterprises. The distribution of focal industrial sub-sectors is as follows: oil and natural gas extraction (30.77%), nonferrous metal mines (21.54%), and ferrous metal mines (18.46%). Nearly two-thirds of the enterprises are publicly listed, and about 78% of the enterprises have invested overseas for more than 5 years. The number of countries and regions invested ranges from 1 to more than 100, and are located mainly in South America, Africa, the Middle East, and South-East Asia.

This Study also collected and analyzed 23 CSR reports released by Chinese extractive enterprises in specific host countries. These reports are comprehensive reflections on the frontier practices of Chinese extractive companies in terms of transparency, and, consequently, are used as a special sample in this study.

Main Findings

Transparency Cognition and Practice

The survey respondents generally deem political instability and personal safety as the greatest risks among all major risks companies face in overseas investment, which is followed by property security, environmental protection and labor disputes. Financial conflicts (i.e., the financial risks originated from the perspective of stakeholders, mainly including the conflicts between enterprises and shareholders, creditors, governments, and so on, arising from conflicting interests); bribe demands are also important, though to a lesser degree (Figure 3).

> *A Chinese company has been operated in Laos for many years, originally as a labor contractor and has been gradually moving into other businesses. The mineral business invested in by the company is now in the early stages of exploration.*
>
> *When talking about the assessment and response to the social risk of investment in Laos, the employees commented that*
>
> *"The first priority is the consideration of political risk! Laos is a country with stable political and social environment, but as a Chinese company, we always pay attention to changes in political situation and are worried about the involvement of some political forces. Inequality and polarization between the rich and the poor prevails in Laos and corruption is rampant too. With the well-developed Internet in current days, once the social issues are taken advantage of by certain foreign political forces, it would be hard to tell what will happen. In case of political turmoil, our personal safety will not be guaranteed and the company and personal property will be threatened, which may interrupt project flows and increase investment cost."*

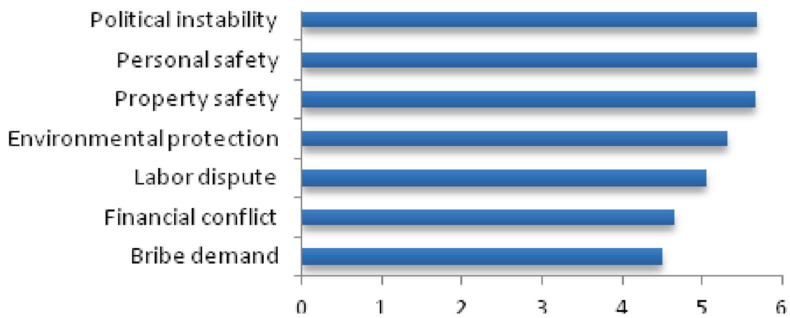

Figure 3. Major risks in the face of companies' overseas investment

The mechanism discussed in the previous section suggests that transparency and risk are negatively correlated; that is, more transparency results in less risk, and the survey results basically support this argument. Most responding companies acknowledge the role of transparency in mitigating the companies' overseas investment risks (Figure 4).

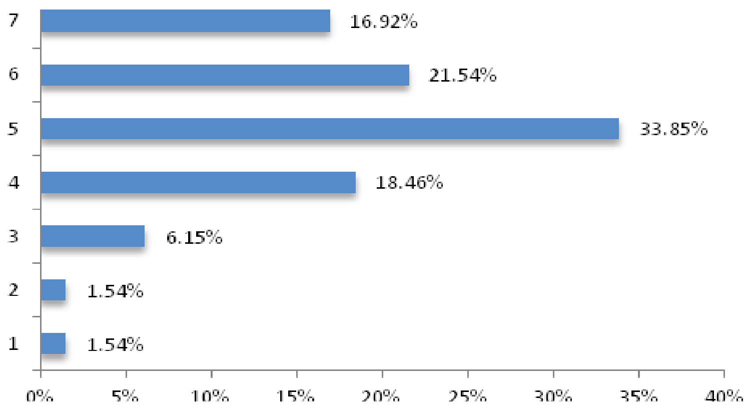

Figure 4. Role of transparency in reducing companies' overseas investment risk

However, recognizing the importance doesn't mean actions would have been taken. Only 27.69% of the companies surveyed, all of which are state-owned enterprises, both knew and implemented the transparency-related international rules or initiatives. Another 27.69% of companies have never heard of relevant international organizations or standards. Among the numerous international organizations, actions, standards, and initiatives, comprehensive general standards, namely the *United Nations Global Compact* and the *Global Reporting Initiative (GRI)*, have the highest cognition and participation, which is in accordance with expectation. It is observed that the influence of the China Chamber of Commerce of Importer and Exporters in Metals, Minerals and Chemicals has begun to rise. About a fifth of the interviewees were familiar with the Guidelines for Social Responsibility in Outbound Mining Investments promulgated by it. The *Extractive Industries Transparency Initiative* (EITI), focusing on the extractive industries, also has relatively high awareness (Figure 5).

Figure 5. Organizations, actions, standards, and initiatives enjoying the highest cognition and participation[3]

Of the companies surveyed, 55.38% have set up one or more measures or mechanisms for disclosure in their overseas investment, among which state-owned enterprises account for nearly 89%. The main approaches of disclosure include the companies' official websites, CSR reports issued at the head office, country-specific reports on CSR, and communication meetings with stakeholders, media interviews, and social media platform. About three-quarters of the companies disclose the overseas investment information on their official websites,

[3] Chapter 2 of this Report elaborates on some of the most influential requirements, initiatives, or guidelines regarding the extractive industry's transparency, whereupon, the surveyors solicited comments on the items through a preliminary questionnaire, and put the suggestions obtained in the options of the final questionnaire.

over half of the companies disclose through CSR reports issued at the headquarter and communication meetings with stakeholders, and companies disclosing information by accepting media interview and issuing country-specific CSR reports accounted for 44.62% and 36.92%, respectively (Figure 6).

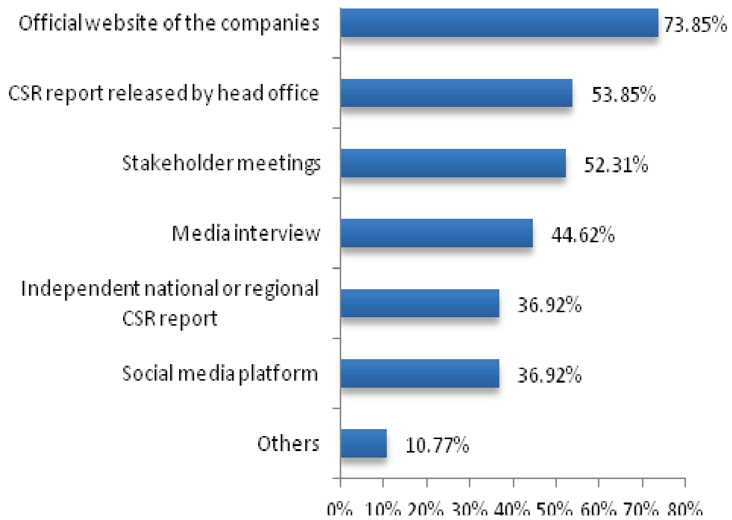

Figure 6. Information disclosure manners adopted

Many companies recognize that the most important benefit from following compulsory disclosing requirements is the enhancement of corporate brand and image. Moreover, the compulsory disclosure is helpful to meet the requirements of government and local business partners, protect the interests of investors, and improve the relationship with local communities. Comparatively speaking, the compulsory information disclosure is of less significance for securing employees' interests, avoiding financial risks, and protecting local environment (Figure 7).

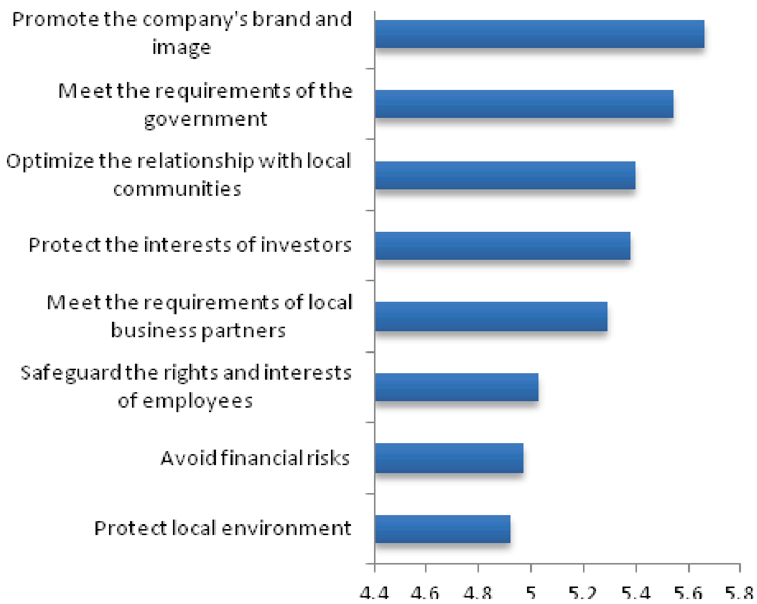

Figure 7. Benefits gained from compulsory information disclosure

Although the adoption rate of disclosure by Chinese companies involved in overseas investment is increasing, the surveyed companies also expressed concerns on obstacles and challenges; for example, the companies were usually worried about leaking trade secrets due to disclosure, the absence of matching compulsory requirements for disclosure in China and the host country, unfamiliarity with national conditions, legal system and regulatory requirements of other countries, etc. (Figure 8). In their opinion, management support is most important in the implementation of disclosure measures, which is followed by the shareholders' support.

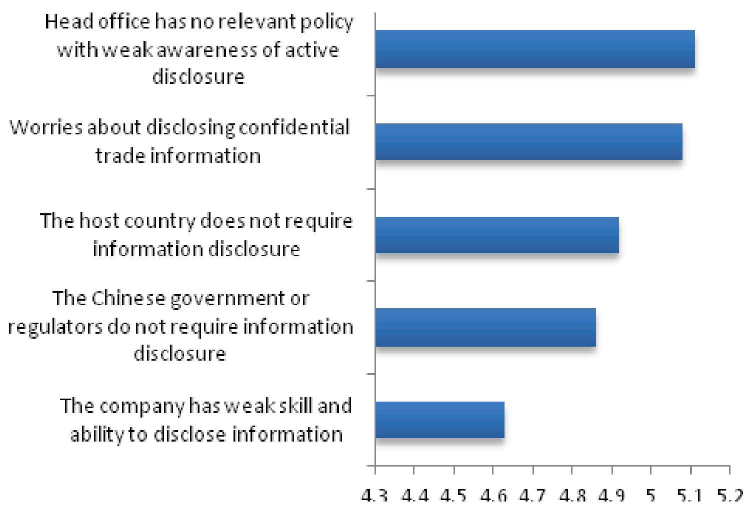

Figure 8. Factors prohibiting companies to improve their overseas investment transparency

Communication with Stakeholders

Well-executed disclosure and improved transparency are the precondition of enhancing the communication with stakeholders and establishing trust, which implicates that one-way information disclosure is not enough, and the one-way information disclosure should be complemented by two-way communication, receiving feedback while expressing opinions, forming a positive feedback loop, and further improving transparency.

In this survey, 64.62% of the respondents said that they have set up communication mechanisms with stakeholders in the host country when making overseas investment. The principal mechanism was regular or irregular visits to and communication meetings with stakeholders. However, most of the communication meetings only involved government departments, suppliers, and internal employees. Only a few companies have considered communication with local communities, media, and chambers of commerce. The complaint-resolving mechanism and joint management meetings have also come into sight of companies. In case of significant problems, companies would communicate frequently with relevant parties through written correspondence and face-to-face meetings. Companies considered the local government as the most important stakeholder, followed by shareholders or investors, and residents from the local community. The local non-governmental organizations and international organizations have not been considered as important stakeholders (Figure 9).

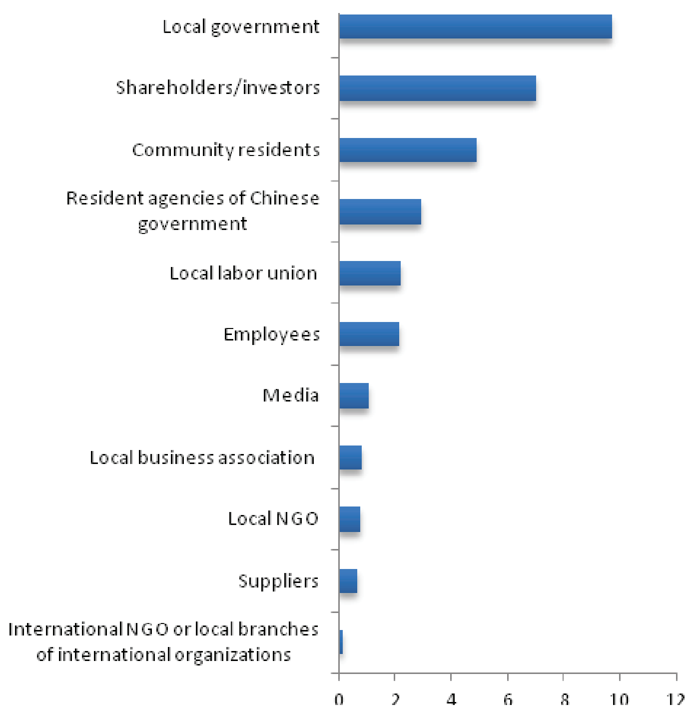

Figure 9. Stakeholders prioritized by companies

The communication with NGOs has always been the weak link or even the blind spot in communication between Chinese companies and stakeholders, but its role in outward investment and extractive industries cannot be underestimated. In our survey, over half of the interviewees said that their employers had not communicated with NGOs (including the local NGOs of host country and international NGOs) as actively as expected (the international NGOs even fell outside the top three stakeholders concerned) and believed that the main inhibitor was that NGOs had never contacted them, followed by not knowing how to communicate with the NGOs (Figure 10). The companies that did communicate with NGOs preferred to communicate with international organizations or NGOs with government background.

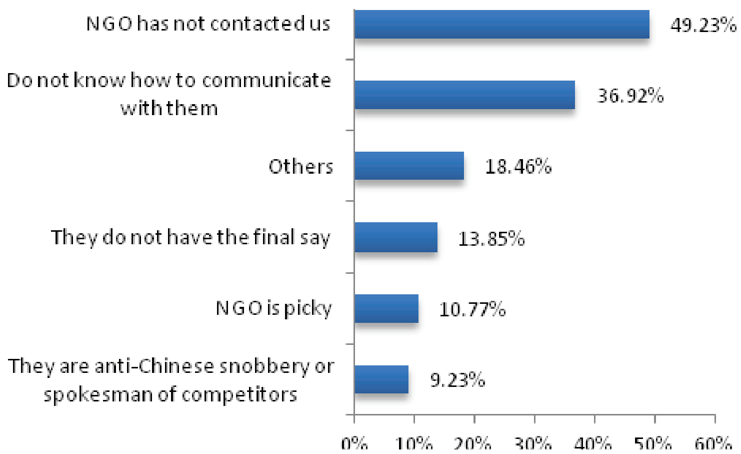

Figure 10. Reasons of non-communication between companies and NGOs

In the Southeast Asian countries we visited, Chinese companies showed little enthusiasm when talking about their relation with NGOs. At times, some stereotyping ideas about NGOs would jump into the conversation. A Chinese company hired a seasoned and famous environmental impact assessment (EIA) company through bidding to assist the approval process of a project. A thorough and thick EIA report was submitted after investigation. Then, for a very long time after the submission, there were numerous revisions and a dozen rounds of communication with the relevant departments in the host country, who would give feedback to the EIA report each time, and the Chinese company took them seriously, no matter how trivial the problems were. This delayed the project launch, which was very costly. In a recent round of communication, when the host country government proposed to get an NGO involved in the EIA, the Chinese company flatly rejected the idea, because it was not familiar with NGOs, and the company was concerned that NGOs might be influenced by third parties.

Differentiating Factors

The comparison of different groups found that the extractive industry companies that have run overseas business for a longer time had stronger awareness of risk and stronger awareness of the mitigating effect of transparency on risk. As a consequence, such companies usually are more active in communication and utilize more channels. As to the country-specific CSR reports, companies with experience of over 20 years have a much higher rate of adopting this method than other companies (Figure 12).

In contrast, companies with comparatively short overseas experience rely more on the Chinese government. With the accumulation of overseas experience, more companies found the role of local government important, a trend also seen with respect to residents of local communities. However, the importance of investors and shareholders tends to decrease gradually as experience increases (Figure 13).

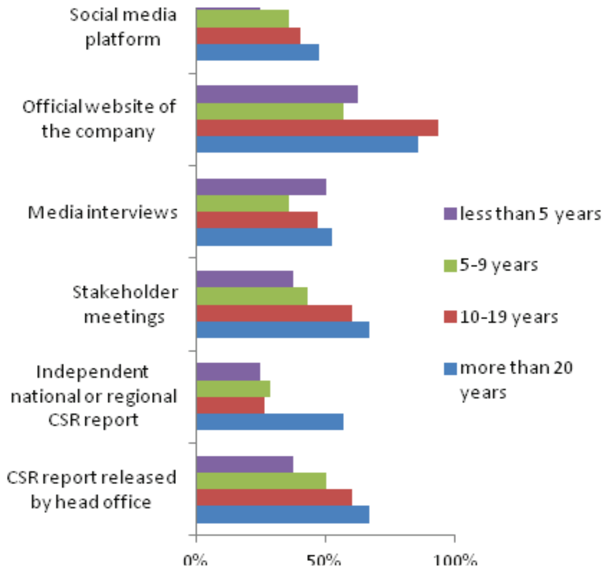

Figure 12. Cross-sectional analysis between overseas operation time and information disclosure manners

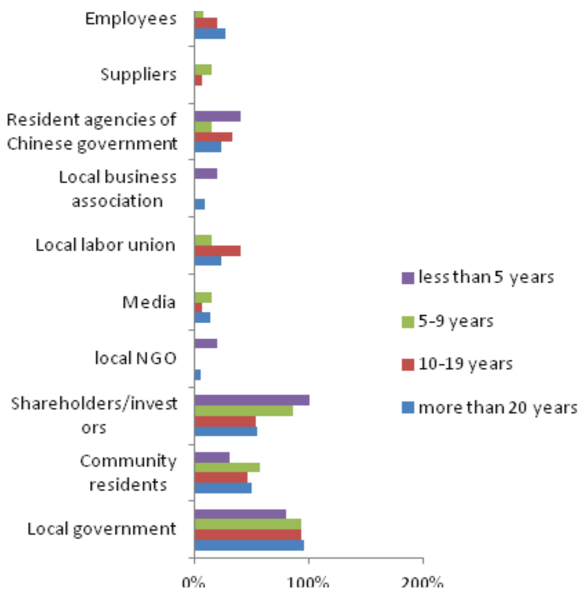

Figure 13. Cross-sectional analysis between overseas operation time and prioritized stakeholders

From the perspective of ownership type, listed companies have deeper recognition that information disclosure can mitigate risk efficiently than do non-listed companies; state-owned enterprises tend to agree more with the concept that transparency can mitigate risks. This may be attributed to two reasons: (1) listed companies and state-owned enterprises are easy targets of supervision and can be influenced with larger odds by such kinds of risks, so they have a stronger risk-prevention sense; (2) listed companies and state-owned enterprises have relatively more developed management procedures and richer experience with respect to information disclosure, resulting in a deeper understanding of the risk-reducing effects of transparency, vis-à-vis non-listed companies.

Further comparison found that listed companies are more inclined to disclose information through company websites and CSR reports; non-public companies are more inclined to communicate with external stakeholders through communication meetings and media interviews. Despite the influence of company characteristics, stakeholder communication meetings are regarded as more effective than media interviews (Figure 14).

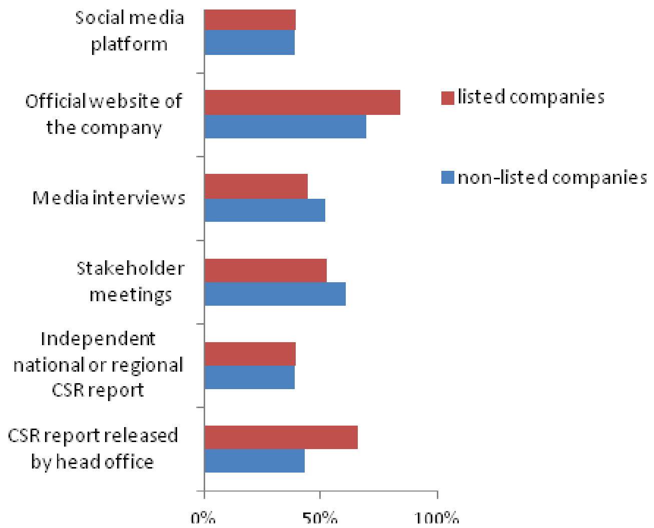

Figure 14. Cross-sectional analysis between company properties and information disclosure manners

Country-Specific CSR Reports of Chinese Extractive Companies

According to our knowledge, as of June 2015, 7 Chinese companies in the extractive industry have released 23 overseas CSR reports covering 13 countries or regions. Among them, the earliest report was published by the Sinosteel Group in 2007; the China National Petroleum Corporation had the widest coverage (covering more than 4 countries and regions); and Minmetals Resources Limited, a wholly owned subsidiary of China Minmetals Corporations, had the best continuity and quality in reporting (reports have been released consecutively for 6 years). It is important to note that all the 7 companies are central enterprises or their subsidiaries.

Key Responsibility Issues

From information disclosed in overseas CSR reports, it can be seen that most of them have combined the characteristics of the mining industry with economic, social, and environmental development needs of the host countries and have developed different degrees of cognition and appraisal on the potential social impacts generated through the operation processes. All the reports have illustrated the social responsibilities involved in overseas business from their corporate culture and values and reflected the company's aspiration to create greater value and support the host country's economic and social development through resource extraction.

The key responsibility issues covered in these reports are relatively comprehensive; they include corporate governance, sustainable operation, stakeholder engagement, employee safety and health, ecology and environmental protection, respect for human rights and labor, human resource development and training, supply chain management, community development and integration, aboriginal rights, and cultural protection. Among them, the safety and health, ecology and environment protection, employee rights and training, localized purchasing, and community development and integration are key responsibility issues. Due to the sensitivity of the resource extraction's environmental impacts, the environmental protection information occupies considerable length in most reports, and some reports also put forward the ecology and environment protection design scheme in the project's full life cycle. Notably, various companies present themselves as being committed to promoting the local economic and social development and the welfare of the community residents by means of financial donations, enhancing local employment, supporting local purchasing, and/or financing for the local community development and public welfare projects. Most of the overseas CSR reports introduced practical cases for illustration.

Minmetals Resources Limited, which mainly operates in foreign countries, clearly expressed in the report that "major issues of sustainable development refer to the various economic, social or environmental risks and opportunities that may produce major positive or negative impacts on company and stakeholders." It also contained an "importance matrix" of responsibility issues and illustrated the actions and results one by one in the annual sustainable development report.

Stakeholders Identification and Communication

All of these reports have clearly defined stakeholders in the overseas business, but the importance of different stakeholder groups various according to their own focus. However, governments of both home and host countries, investors, employees, partners, environment, and community are generally mentioned as the important stakeholders. Some companies also include their clients, peer companies, and NGOs in the stakeholders list. More than half of the reports have claimed that the company has established a communication mechanism with stakeholders and regarded the transparency as well as stakeholder engagement as a core responsibility and backbone for sustainable development. According to the reports, some companies also have set up specialized departments and personnel to be responsible for day-to-day stakeholder communication. Half of the reports show that the company has obtained honors and encouragement for its overseas responsibilities from host governments or international institutions.

Deficiency in Information Disclosure

Overall, very few Chinese companies investing abroad have published overseas CSR reports. However, all the existing reports have advocate the international business philosophy – "mutual benefit for a win-win situation, cooperation for development" – and showcase their best practices on fulfilling economic, social and environmental responsibilities, which echo the idea of "resource for development."

The existing reports are not without problems: first, the completeness and continuity of the reports still have room for improvement; second, limited quantitative information is provided in the reports; third, the disclosure of information indicating external risks and negative information is insufficient; fourth, some reports lack illustrations for cases, and the expression is not specific enough, which may result in insufficient persuasiveness and comprehensibility; last but not least, some of the reports cannot be downloaded from the official company websites, which jeopardizes the accessibility of the reports.

Challenges and Opportunities

Transparency Challenges of Chinese Extractive Industry

Chinese companies have established strong market economy awareness over a long period of time. Since it is a market economy, "business is just business." As long as the price is acceptable, other factors are regarded as irrelevant. Thus, supplementing elements, such as labor conditions, community livelihood and environmental issues, are not taken into account for the traditional investment decision. However, these elements consciously or unconsciously neglected by companies are the key points that a transparency approach emphasizes. Yet, many companies do not realize that nowadays the concept of corporate social responsibility is becoming increasingly popular. Exclusive focus on product price, in turn, causes various problems instead.

In China, government holds a crucial position. In particular, many local governments in China play a leading role of bringing in investment. Thus, once companies come across problems, they immediately turn to the government. Unconsciously, such corporate behaviors are also applied to the overseas investment projects. As the institutional environments abroad are quite different compared to China, local communities, trade unions, and NGOs are all important stakeholders. Yet, companies rarely communicate with them proactively and do not present enough willingness to disclose information. In addition, affected by the Chinese traditional culture of "silence is gold" and the attitude of "doing is better than saying," it is a common phenomenon that many companies do things without mentioning them or work more but communicate these actions insufficiently, which reflects a low corporate awareness for the benefits of transparency.

Even if some companies have realized the value of transparency, most of them still come across obstacles due to weak capacity. Though CSR disclosure as a concept is known by more and more Chinese companies, the related activities are mostly handled by the corporate headquarter, while staffs of overseas subsidies have insufficient understanding of the same. Thus, they can't make good use of some well recognized standards and guidelines, such as EITI, GRI, and Global Compact to disclose CSR information. In addition, for more complex CSR information, such as carbon emissions, the quantitative measurement system has yet to be built.

Companies also lack of capacity for stakeholder communication based on CSR disclosure. Companies should not solely pay attention to disclosure and transparency because the ultimate goal of disclosure and transparency is to enhance communication and build trust. Information disclosure is a "one-way street"; in which companies make a statement to the public; however, communication is a "two-way street" in which companies not only express their opinions and inform stakeholders, but also receive feedback or even start debates. Companies of the Chinese extractive industry are relatively weak in communication as a "two-way street" due to political culture and language reasons. This creates obstacles that prevent companies from effectively communicating with their stakeholders. Consequently, though relevant information is disclosed, it fails to achieve its expected effect.

Another type of capacity companies are short of involves experience and skills around community engagement. For most extractive companies, CSR risks are often rooted in the local community. Thus, the motivation for many extractive companies to improve transparency is to improve communication and community engagement. As Chinese companies have only learned some relatively simple approaches around community engagement, it is a great challenge to them given the complex circumstances in foreign countries. Thus, Chinese companies should learn more community engagement methods that are more tactical and systematic, allowing them to fully leverage the potential benefits of transparency.

During this study, some companies pointed out the issue of information disclosure platforms. Currently there is no information sharing platform customized for transparency issues of overseas investment for extractive industry, so companies do not know where to disclose their information, and stakeholders, also, do not know where to acquire information. The result of such a situation is a higher cost of communication. We have encountered a similar situation during fieldtrip study. The company has already published CSR reports, while key stakeholders like local communities and NGOs caring about the development of the project had no idea about the report at all, and it was also difficult to find and download page of this CSR report on the company's website. For this point, we can learn from the US experience. In the US, the government mandates that companies investing in Myanmar shall disclosure information on a specific web page of the US State Department.

In addition, the lacking insight of most companies with respect to which NGOs to approach in order to efficiently disclose information and communicate with relevant stakeholders hinders the overall adoption of transparency policies. In some areas, a grassroots NGO can be established by a small group of people, which represents the interest of very specific groups. As consequence, companies have difficulties identifying the most appropriate group or institution to interact with. Thus, companies expect external powers for help.

Chinese extractive companies also expect that they can have the chance to cooperate with an NGO with Chinese background when they work on community engagement projects. However, Chinese NGOs with sufficient competence and experience is rare. One of the cases encountered during a fieldtrip study: A Chinese company attempted to collaborate with a Chinese NGO. However, this Chinese NGO had never conducted activities in the host country, and, therefore, it required more money to kick-off the project. Eventually, the company gave up on the project. This is a typical case that reminds us to ponder how to help competent Chinese NGOs (and Chinese media) to internationalize together with companies. An option would be sharing of the related cost by several companies or being borne by the Chinese government instead of burdening a single company.

Transparency Opportunities of Chinese Extractive Industry

In the long run, there are both external pressure and internal impetus for Chinese companies in the extractive industry to improve their transparency. In recent years, the pace of overseas investment of Chinese companies has been getting faster and faster, but its reputation is lagging. There is a strong need for China to build a more positive image of its overseas investment. In order to achieve this, a higher degree of transparency and information disclosure by the investing companies is crucial. The implementation of the "One Belt, One Road" initiative (referring to the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" has further increased the urgency to adopt transparency standards for Chinese companies. The recently-launched Asian Infrastructure Investment Bank (AIIB), which is closely associated with the "One Belt, One Road" initiative, also proposed three objectives in preparation process, namely "Lean, Clean and Green." Two of these three objectives (clean and green) are immediately related to transparency. Thus, from a macro perspective, transparency is a problem that needs to be addressed.

From a micro perspective, companies face gradually increasing external pressure. Previously, media reported that the failure rate of overseas investment projects was relatively high, and most cases were related to the strike of workers, environmental pollution, local villagers protesting, etc. while only few were caused by financial problems. These problems will force Chinese companies to enhance social responsibility performance and improve information disclosure and transparency. From the point of view of the company itself, the larger companies are and the more eager they are to establish long-term overseas operations, the more they should be interested in maintaining a good relationship with the local community and other stakeholders and establishing a positive image.

The implementation of transparency for China's extractive companies does not start from nothing. On one hand, CSR disclosure is not entirely new to many large-scale extractive companies, especially state-owned enterprises. Some central level state-owned enterprises have had experience with CSR reporting for several years. On the other hand, there are already some Chinese companies with overseas investment disclosing information in accordance with local standards. For example, EITI conducted an analysis recently on the disclosure performance of Chinese companies in EITI countries and found that Chinese companies disclose information on payments to governments to the same extent as companies from other countries. In 6 EITI countries, Chinese companies even participate in multi-stakeholder groups (MSGs). These experiences can provide examples for other Chinese companies.

These preliminary achievements of Chinese companies are gradually recognized by the international community. The above-mentioned EITI report is one of such cases. Coincidentally, Boston University released a study report in the Global Economic Governance Initiative (GEGI) and pointed out that Chinese companies are not significantly weaker than companies from other countries on CSR in its overseas investment, and they even outperform in some regions.

Regardless of the practice of domestic companies, Chinese extractive companies with overseas investment should learn from rich experiences of developed countries. Multi-national giants from Britain, the U.S.A., Australia and other countries were engaged in the exploitation of petroleum, mining and other mineral resources around the world in the past, during which they also encountered similar problems. For example, Shell encountered continuous protests for its investment in Nigeria, which even caused a stir in the world. This issue drove Shell to accelerate its efforts around corporate social responsibility, including publishing CSR reports. To build upon these experiences and lessons will be of great benefit to Chinese companies.

In addition to historical experience, the ongoing practice conducted by some companies from developed countries is also worthy of attention. For instance, in Myanmar, early mover investors, such as Coca Cola and Telenor, are very cautious in information disclosure and transparency. It is very helpful to learn the ideas and methods of others.

Practical and Policy Implications

Increasing information disclosure and transparency for overseas investment will be a trend for a long time in the future. With the Chinese companies' involvement with outbound direct investment intensifies, companies, as well as policy makers, need to adapt and embrace the changes. Based on the findings of this study, some practice and policy implications are listed in this section.

The Transparency Mindset

Transparency for the extractive industry is a comparatively new subject to both the government and companies. Based on the above analysis, it is suggested that both government departments and, especially, companies need to switch the mindset to fully recognize the value of corporate social responsibility and transparency. In particular, they need to note that (1) corporate social responsibility is the requirement of the new era and is, also, mandated by risk mitigation considerations; (2) it is necessary to proactively communicate because to say is of equal importance as to do; (3) both civil society and host countries' governments are important stakeholders with whom companies should have dialogue.

For companies to switch the mindset needs deeper research, understanding of specific requirements of information disclosure in compliance with industrial and local regulations, and general practice of voluntary disclosure. For headquarters of large multinational companies, it's necessary to enhance the communication with overseas subsidiaries on the issue of transparency.

For the government, a special study should be conducted on the international trend of transparency for the extractive industry so as to analyze the potential impacts of standards and guidelines such as EITI, OECD, and other international organizations.

Progressive Steps from Closed-Door Stakeholder Dialogue

To enhance transparency and make good use of it to reduce risk is a gradual process. For companies without any experience, the initial step is to identify key stakeholders and understanding their requests for information disclosure and transparency, rather than disclosing information rashly. In the extractive industry, the government and local community residents are usually part of the key stakeholders. Chinese companies often keep close communication with the government, not with local residents and NGOs, which may result in a lack of mutual understanding, not to mention mutual trust. Therefore, for companies to start the dialogue with stakeholders is a very first step. Generally, such dialogue must follow some principles, such as dialogue on equal footing, and closed-door meetings. Otherwise, it is difficult to carry out. An experienced moderator is another key to success.

In addition, this study finds out that many companies say they don't know anything about local NGOs or have concerns about international NGOs. These problems could be solved through a dialogue platform established by government or civil organizations (such as business associations). The government or civil organizations can convene closed-door dialogues for related companies, residents, and NGOs by region or by topic so as to strengthen mutual understanding.

Shared Platform for CSR Reports

A Corporate Social Responsibility report is a concrete way to display important information. Capable extractive companies may publish country CSR reports for their overseas investment. This approach can even be applied to the project level for significant projects or those lacking legitimacy. This study finds that such reports can contribute a lot to stakeholder communication.

However, after the release of such CSR reports, many companies only upload reports to their official website where the links are not very conspicuous. Consequently, people don't know where to find them or where to download the reports from, which limits the value of CSR reports. To solve this problem, government or business associations can develop a shared platform or database for companies to publish CSR reports. Such a platform could subsequently, also, expand to other areas and be more integrated with risk information and regional dialogue related to overseas investment.

Companies with Leadership

Compared to other types of companies, state-owned enterprises and listed companies have comparable advantages with regard to transparency. Some of them have done a good job. Therefore, if the government plans to improve transparency performance of extractive companies, they can start with state-owned enterprises (especially central level ones) and listed companies. These companies are usually leaders in the industry, which can play exemplary roles.

The study also finds that companies with an experience of overseas investment for over 20 years often do better on transparency issues. The government can carefully analyze the experiences and lessons of such companies so that others can learn.

Talent Development for the Long-run

The promotion of transparency depends on professional talents. At present, there are not many people who are familiar with corporate social responsibility for the extractive industry's overseas investment and even fewer people who concentrate on transparency issues. Many people working in companies lack the skill and experience to communicate with the grassroots NGOs and community residents, posing further challenges to this facet of corporate transparency. Therefore, the government, business associations, and companies should pay attention to cultivating professionals and focus on medium- and long-term capacity building.

Partnership, NGOs and the Media

At present, it is the government and companies that proactively go abroad and invest. In some cases, companies closely follow the steps of the Chinese government. However, this study finds that companies also hope the Chinese media can strengthen exchange and cooperation with local media in host countries, and Chinese NGOs can help companies to carry out community activities overseas.

In response to such needs, we suggest that NGOs and the media work together with government and companies. These four parties (government, companies, NGOs, and the media) can form a four-in-one partnership for overseas investment. The government should strategically support the Chinese media and NGOs to work on overseas issues, including offering preferential policies, financial support, capacity- building training, etc.

Acknowledgement

Financial aid is provided by UK Department for International Development (DFID)

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