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The Growing Importance of Corporate Social Responsibility in Asia

Introduction

Thank you very much. Ladies and Gentlemen:

It is my pleasure to be with you this morning here in Singapore for the 5th Hitachi Young Leaders Initiative. It gives me great pleasure to be among the best and brightest students in Asia, who will predictably become leaders in your respective countries. It is indeed fortunate that the Hitachi Young Leaders Initiative gives you the opportunity to expand your horizons by looking at regional and global issues, and promoting a sense of Asian values and cross-cultural understanding and harmony through the sharing of common experiences and activities.

I cannot overemphasise this opportunity of interaction with your colleagues from different countries; and together with other young leaders from the past initiatives, you form a cadre of future leaders in Asia. I am sure that in the years ahead, you will look back at these sessions as being useful in your own careers.

Globalisation, Asia and Perspectives in Corporate Social Responsibility

The phenomenon of globalisation has brought forth the union of things local with that of global. Issues that were once thought of as local are now global. In 1995, when Shell dumped its Brent Spar oil platform in the North Sea, public agitation in Europe was so intense that in Germany its sales fell by 70 per cent within a fortnight. Similarly, Nike, the shoe and apparel giant, ran aground due to a campaign against child labour and worker exploitation in many of the 700 factories across 40 countries where Nike worked with subcontractors.

In the age of globalisation, corporations and business enterprises are no longer confined to the traditional boundaries of the nation state. The citizens of a country are not defined by boundaries of nations and are not dependent on the services provided by the state. In this day and age, new players and actors have emerged to blur the lines among government, the private sector and the increasingly growing third sector of civil society.

From a single nation state we are now in the era of shared governance systems. The state creates a conducive political, economic and legal enabling environment. The private sector generates jobs and income. Civil society facilitates political and social interaction. The effective functioning of each participant, and a constructive partnership among all three, are also crucial to balance the strengths and weaknesses of each. What we can now observe is the convergence of interests between and among the three key players.

Southeast Asian nations have demonstrated that globalisation has accelerated from a one nation-state to the convergence of many nation states. And that global integration, economic or otherwise has provided opportunities for countries to think regional instead of national. Regional integration has allowed Asian countries to consider the economic, social and political welfare as going beyond country boundaries and including their neighbours as well.

The financial crisis in 1997 gave birth to the need for better governance. Corporate governance which will involve decision-making processes that holds individuals accountable; that encourage stakeholder participation; that facilitate the flow of information following standards of proper disclosure and that rely on clear rules properly enforced.

For businesses being confronted with such decisions and realities, one characteristic of globalisation is the spread of the market and the change in the mode of production. For the past 20 years, multinational corporations have played a key role in defining markets and influencing consumer behaviour.

The primary driver for corporate social responsibility or CSR came from United States and Europe in the 70's and the 80's from campaigns run by pressure groups such as Greenpeace and Friends of the Earth. Consumer boycotts, direct actions, shareholder actions, labeling and responsible advertising, media and an informed public have successfully changed government perspectives.

The 21st century is a period wherein corporations are pressured by "ethical market forces" to re-orientate their business strategies and performance. In this day and age, the rules of corporate governance have changed in that business ethics, social responsibility and an informed and public have emerged to define their stake in nation building. Social values have redefined the norms of business and the consumer citizen is now a citizen-consumer.

According to the John Samuel and Anil Saari, there are three emerging perspectives on corporate social responsibility:

First, is a business perspective that recognizes the importance of reputation capital for capturing and sustaining markets. Corporate social responsibility is viewed as a business strategy to reduce investment risks by maximising stakeholder confidence.

The second is an economic-social perspective, which recognizes that social and environmental stability is critical to the firm's long-term growth and viability. Corporate social responsibility is both a value and a strategy. It is a value because it stresses the fact that business and markets are essentially aimed at the well being of society. And a strategy because it helps reduce social tensions and facilitate markets.

The third and growing perspective that shapes the new principles and practice of CSR, is the rights-based perspective. It emphasizes that consumers, employees, affected communities and shareholders have a right to know about corporations and their business. It offers a paradigm that corporations are in effect public institutions whose survival depends on consumers and investors. And that governance principles of accountability, transparency and sustainability are key aspects of corporate social responsibility.

Corporate Social Responsibility in Asia

Given the trends and the changing perspectives, what is the current view of CSR in Asia? CSR promotes the vision of business accountability to a wide range of stakeholders besides its shareholders and investors. The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from the broader society. It is important to note that though privately owned, the merging paradigm is that corporations are public institutions and cater to a range of stakeholders. For the new generation of corporate leaders, the key is not maximization of profits but the optimization of profits. Hence, the shift from accountability to shareholders to accountability to the stakeholders. And stakeholders refer to employees, consumers, investors and the larger community.

CSR in Asia will follow trends from Europe and the United States. As multinationals from the first world set up their corporations in Asian countries, they will be under scrutiny as business operating standards are becoming more global and public action are shaping how

business is done. Ethical market forces will pressure global companies to comply with global standards in areas of social and environmental protection, labour reform and stakeholder relations.

The merging perspectives which I discussed earlier tell us that CSR as practiced has evolved over time. Traditionally, the role of business is to create profits and maximize shareholder value. If the corporation provides decent dividends to its shareholders, pays the right taxes, pays the employees well and works in partnership with all players in the supply chain, it is considered in good standing, even if it pollutes the environment or implements business practices which run contrary to the social and economic welfare of the population. But today this view is no longer acceptable. Let me cite as an example the response of a segment of a Philippines corporation towards the social unrest in the early 1970s as a manifestation of their corporate social responsibility.

In the 1970s, during the social unrest period in the Philippines and prior to the declaration of martial law, the Philippine Business for Social Progress (PBSP) was founded by 50 leading corporations, who saw the need to pool resources to "do something about development" in the face of worsening political and economic situation. By pledging to put aside one per cent of net income before taxes (and place 60 per cent of that amount to be managed by a professional corps of social development workers), a substantial amount of funds were aggregated and used as development capital for a range of social development programmes targeting the Philippine poor. In 2001, PBSP has over 180 corporate members, many of them have their own development foundations and look to PBSP as a consultant in the management of their own in-house community relations (comrel) programs.

According to the Asian Institute Management Center for Corporate Social Responsibility, there are really four models of corporate social responsibility that we have to look at.

The first model is resource transfer. Corporate-giving is the easiest response to comprehend. The origins of philanthropy were largely individual carried over to corporations as an extension of individual beliefs. In American law, such giving has its own immediate benefits (e.g. tax credits) quite separate from the benefits derived by recipients of such grants and which may be the single most important driver. This was the initial track taken by PBSP when the member companies pledged to donate 1% of their net income before taxes to social development activities.

The danger of such giving is the creation of a purely dole-out situation where the grantees are no better off because of dependency on the resource transfer. Thus, the means, in fact, undermine the ends. Major corporations have changed their own thinking on giving and have begun to look at this as a community or social investment.

The second model is community relations. Community relations is the direct involvement of the company in community-based programs either by themselves, in partnership with an NGO or a community association or a local development, or in coalition with other businesses.

The coalition approach to development is common in a number of situations both in developing and developed countries. In all coalition arrangements, there is the desire to pool resources to achieve a critical mass. In developing countries, however, the coalition arrangements have also occurred in situations where the arrangement was seen as an alternative solution to Government's inability to deliver. Let me cite an example.

The Thai Business Initiative for Rural Development (TBIRD) was set up by the Population and Community Development Association in 1990 as a means to directly involve corporations in social development. Here, over 100 Thai companies adopt villages and with the help of TBIRD organize village-level projects that span the entire range of social development possibilities based on a joint TBIRD-company-community assessment.

There are also instances where companies have undertaken community relations directly or through their own foundations:
- The Bank of the Philippine Islands, the country's second largest private commercial bank
  has maintained a "Banking with the Poor" programme under its own foundation lending capital to microenterprises following a modified Grameen Bank (Bangladesh) set-up.
- In Thailand, the Pan Group, the largest manufacturer of shoes under (original equipment
  manufacturer) OEM and other arrangements, has engineered its operations moving a large bulk of its production from large central factories to village-based production centers under province-based network centers. The move was done to help address the problems of in-migration of workers to the metropolitan Bangkok.

The third model is business and industry practices. Here, CSR, through codes of conduct is the manner by which so-called "best practices" begin to be viewed as standards for operating businesses. Such codes of conduct have been important self-regulating mechanisms as well as vehicles for corporations to buy-into industry-wide practices.

The fourth and last model is corporate social responsibility as part of its business strategy. CSR as a strategy can serve as an alternative delivery mechanism for a public good and the privatisation of the public service. Another example from the Philippines is characterised by the "Depressed Area Electrification Program" of the Manila Electric Company (Meralco).

The provision of electricity service to illegal occupants or "informal settlers" is a new part of the business that is not traditionally addressed because of a number of reasons including high risk, low incomes from the consumers, legal constraints. The question of whether there might in fact be a reasonable return for an investment or a way by which productivity gains can be realized by the company is a question raised at the highest levels of the company, that of its Board of Directors.

Recent Developments in CSR

The continued growth of CSR as an issue in modern society stems from a wide range of events and trends. Let me cite a few:

1) Changing Expectations of Stakeholders Regarding Business: The public and various stakeholders have come to expect more of business, according to several studies. Increasingly, they are looking to the private sector to help with the complex and pressing social and economic issues. There is a growing ability and sophistication of activist groups to target corporations they perceive as not being socially responsible, through actions such as public demonstrations, shareholder resolutions, and even "denial of service" attacks on company websites.

2) The Role of Government: In countries, national and local governments have taken a more hands-off approach to regulating business, due to the globalisation of commerce and shrinking of resources. As a result, some companies and multinational companies in particular are relying less on government for guidance, instead adopting their own policies to govern such matters as environmental performance, working conditions and ethical marketing practices. However, when corporations exhibit intolerant practices against societal interests, then governments should perform its regulatory functions with greater vigour over these corporations.

3) Increased Customer Interest: The growing interest in CSR comes both from business-to-
business customers as well as consumers. In the former, there is a significant move by many companies, governments, universities and other institutions to align their purchasing decisions with social criteria, particularly those related to companies' environmental and human rights performance. In the latter, numerous studies correlate consumer purchasing preferences with ethical and socially responsible business conduct, though it is unclear the extent to which these sentiments translate into actual changes in purchasing patterns. A study by Environics, The Conference Board, and the Price of Wales Business Leadership Forum in 1999 surveyed 25,000 citizens in 23 countries regarding corporate social responsibility. It revealed that 17 per cent of 25,000 survey respondents reported that they had actually avoided the products of companies they perceived as not being socially responsible (see "Business Importance" section of this report for related statistics). There is a growing number of organizations that help consumers and businesses with their purchasing decisions by rating companies and products or publishing lists of products to seek out or avoid based on social criteria, such as a company's environmental performance, labor practices or community-involvement record.

4) Supply Chain Responsibility: As stakeholders take a growing interest in companies' corporate social responsibility, many companies are finding that they are responsible not just for their own performance, but for that of the companies "upstream" and "downstream" - that is, a company's suppliers as well as its customers and the result is that some companies are imposing codes of conduct on both suppliers and customers to ensure that the policies or practices do not reflect unfavourably on them. And this has a cascading effect along the entire supply chain, encouraging suppliers to adopt socially responsible business practices.

5) Growing Investor Pressure: The growth of socially responsible investing has accelerated in recent years, and investor groups increasingly pressured companies on social issues. Many of these investors are using the shareholder resolution process to pressure companies to change policies and increase disclosure on a wide range of CSR issues, including environmental responsibility, workplace policies, community involvement, human rights practices, ethical decision-making and corporate governance.

Activist groups are also buying shares in targeted companies to give them access to annual meetings and the shareholder resolution process.

6) New and Emerging Issues: Recent years have seen a growth in the breadth of topics consider under the "corporate social responsibility". Included among others, how boards of directors are chosen and compensated; religious freedom in the workplace; "cyber ethics" issues of access to and privacy linked to information technology, both for consumers and employees; consumer concern over the use of genetically modified organisms in agriculture; and the new demands brought about by the increased interest in environmental sustainability.

CSR and Asian Business

CSR will continue to become a global phenomenon. UN Secretary General Kofi Annan has launched an initiative, The Global Compact, which asked companies to embrace universal principals in areas of human rights, labour standards and environment. It brings companies together with civil society, international labour and UN organisations to form partnerships in building a more inclusive and equitable market. It aims in the words of Kofi Annan, " to contribute to the emergence of shared values and principles which gives a human face to the world market."

In the end, CSR is driven by humane values, adhered to by business leaders who believe that the corporations have both enterprise and societal objectives and both are equally paramount

For many of you who want to embark on a business career, I encourage you to develop your personal vision and mission directed towards social responsibility. It is important for you to immerse yourselves in the different sectors of society.

The current business leaders who have strong societal commitments are those who have previously immersed themselves in community affairs, or have been personally influenced by poverty in their own lives or were involved in the articulation and resolution of societal issues and concerns. In this era of shared governance systems, we need leaders who understand societal interests for the common good. Effective leaders are those who can work well with all sectors and operate within the shared governance systems and have developed cold values of integrity.

It is also critical for business leaders to have a concrete understanding of the larger environment within which he or she and the firm operates. I teach in a management school, at AIM we have a course on environmental analysis, which provides a concrete understanding of the environment factors, and the key players (stakeholders) that directly or indirectly affect the firm.

A multi-stakeholder perspective need to be ingrained in business leaders as they analyse environmental factors that affect the key players. The said perspective will guide managers in developing strategic interventions that would contribute to the growth and development of their firms.

I hope and pray that you will do your share in governing and leading your communities and nations towards a more humane and more prosperous and more peaceful world.

Thank you.