

# *5<sup>th</sup> Hitachi Young Leaders Initiative*

## **THE GROWING IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY IN ASIA**

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### **Key statement:**

***To promote awareness and to find key engagement areas for Corporate Social Responsibility (CSR) in Asia***

## **I Introduction**

In 1984, Union Carbide failed to implement safety mechanisms in its Bhopal industrial plant, leading to the death of 3,000 people and permanent health problems for 200,000 others. Shell witnessed a drastic drop in its sales in Europe after disposing of an oil platform by sinking it at sea in the mid-1990s. In 2000, Nike employees in Indonesia suffered verbal abuse and sexual harassment. In 2002, the global community was shocked to find that US publicly-held companies Enron, Arthur Anderson and WorldCom had helped bleed more than US\$7 trillion from the US markets since March 2000.

The experiences of corporations in North America and Europe prove that Corporate Social Responsibility (CSR) exerts an influence on various areas such as human rights, employee rights, environmental protection and community involvement. Issues such as the above, therefore, have accelerated the need for an increased awareness and implementation of CSR in Asia.

## **II Definition**

There is no universal definition of CSR. The term became widely used in the United States only in the 1960s. It generally refers to a series of actions linked to ethical values, compliance with legal requirements, and respect for people, communities and the

environment. Whether companies practice CSR for the reasons of goodwill, business necessity or cultural requirements depends largely on how they perceive CSR.

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. In Europe, meanwhile, CSR is more focused on operating the core of business in a socially responsible way.

The World Business Council for Sustainable Development defines CSR as *“the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”*

The Business for Social Responsibility defines the concept as *“operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business.”*

Given the limitations of the above definitions and the diverse and complex nature of Asian economies and countries, we would like to propose the following definition:

*CSR reflects a company’s continuing commitment to act legally and ethically and to engage in sound business practices so as to improve the quality of life.*

### **III Why Corporate Social Responsibility?**

CSR in Asia is still in a stage of infancy. However, in the new global economy, it has become much more crucial for companies to position themselves as active corporate citizens, and not merely thriving businesses. CSR is an investment. It is not an unrecoverable expense. The major reasons for advocating CSR are as follows:

#### ***a) To Improve Financial Performance***

- In a 1999 study by Business & Society Review, 300 large corporations discovered that companies that made a public commitment to put a premium on ethical practices have outshined companies that did not do so by two to three times.
- A 1997 DePaul University study found that companies that have a clear cut definition of corporate practices they espouse have done much better financially than companies that do not.
- A recent study by University of Southwestern Louisiana found that unethical corporate behaviour can adversely affect the stock prices of a company.

#### ***b) To Reduce Operating Costs***

- Environmentally-oriented and workplace initiatives can reduce costs drastically by cutting waste and inefficiency or improving productivity.

**c) *To Increase Sales & Customer Loyalty***

- In a 1997 study by Environics International, 97 percent of people surveyed believed that companies should not focus purely on profitability.
- A 1997 study by Walker Research found that, in the event that price and quality are equal, 76 percent of consumers will switch brands based on whether or not the company is associated with a good cause.

**d) *To Increase Productivity & Quality***

- A recent study conducted by the Medstat Group and the American Productivity and Quality Center found that health benefit programmes can effectively increase productivity and decrease company costs related to absenteeism, turnover, disability and health-care claims by 30 per cent.

**e) *To Reduce Regulatory Oversight***

- US corporations that have an effective ethics programme embedded into their corporate strategy are being taken out from the jurisdiction of the US Federal Sentencing Guidelines.

## **IV Key Aspects in CSR**

Based on the economic and corporate issues in Asia, we would like to identify four main areas in which CSR can be particularly used:

**a) *Employee Relations***

Employees play a critical role in generating revenue for the company. One trend in business shows that employees want a sense of purpose in their work. Being a part of a visionary company brings out the best in people because they are not working for a company whose objective is only to gain profit. Instead, it gives employees great satisfaction knowing that they are part of an institution that has a goal of contributing greatly to nation-building. A study conducted by Net Impact in 1997, which surveyed 2,100 MBA students, found that, ceteris paribus, more than half of respondents said that they would prefer to work for a socially responsible company. Thus, institutionalising corporate social responsibility in a company's business operations will guarantee a continuous flow of competent graduates and strong patronage from potential consumers.

**b) *Shareholders' Interests***

Recent developments in CSR have called for a change in the perspectives of shareholders and how they can yield tremendous influence on companies and the manner in which they practice corporate social responsibility. A report submitted by the Social Investment Forum showed how companies that adhere to the principles of corporate social responsibility are being awarded almost 2 trillion dollars in assets. These assets, which are under the management's portfolio, are given to companies that have passed very stringent screening processes.

*c) Community Development*

Lately, companies have been held responsible for forging ties with the government to carry out programmes that will contribute to the welfare of the common good. They are called to help governments build the necessary operating mechanisms that will provide the community with the cohesion and confidence to interact with the outside world. As the world gets smaller due to globalisation, there are community programmes and livelihood and poverty alleviation projects that corporations should take part to help solve the critical problems facing many Asian countries. One concrete way of carrying this to fruition is by putting into place structural mechanisms that will allow the projects to perpetuate and to avoid programmes that are carried out sporadically. This should be planned well and performed continuously.

*d) Environmental Management*

Environmental programmes and projects are playing a crucial role in the development of CSR both in developed and less developed countries. Through the environment, a direct interaction between the company's production systems and the universally accepted environmental practices come into play. Environmental issues are not essentially restricted to nature. However, they include governments and the economic stakeholders of a country. This has been further validated by a study conducted by Environics in 1999, which showed that a considerable percentage of the population had avoided products whose companies had showed inconsistency in their CSR commitments.

## **V Recommendations**

Each company differs in the way it implements CRS. The differences depend on such factors as the company's size, sector, culture and the commitment of its leadership. Some companies focus on a single area, like the employees or the community, while others aim to integrate a CSR vision into all aspects of their operations. Companies should consider the following recommendations when implementing CSR policies and practices.

### **1. Employee Relations**

*a) Welfare*

If state legislation is not already provided for labour employment, companies should pay more attention to the welfare of employees and their families via these avenues:

- Employee relations, pay and benefits, and the security of employment
- Employee working conditions, health, safety and satisfaction
- Employee education and skills upgrading
- Women and minority employment and advancement

**b) *Recognition & Rewards***

Employees' work should be recognised and rewarded. The system of recruiting, hiring, promoting, compensating and publicly honouring employees can be designed to underscore a company's pro-active CSR programme.

**c) *State Legislation***

States can help to set guidelines or benchmarks for employee minimal wages and other welfare benefits. In Singapore, for example, workers' retirement funds are provided for by their savings in the Central Provident Fund institutionalised by the government, thus reducing the need for pension funds maintained by individual companies. Additional legislation like the Workmen's Compensation Act is another way of setting guidelines for companies' employee welfare benefits.

**2. *Shareholders' Interests***

**a) *CSR in Mission, Vision and Values Statements***

Companies should specify their engagement in ethical business practices in their core mission, vision and values documents, and seek to create value for a variety of stakeholders. These are simple but important statements that succinctly state a company's goals and aspirations. They also provide insight into a company's values and strategies for achieving its aims.

**b) *Materialisation***

Companies should be committed to realise their CSR goals and aspirations. This ensures that companies say what they mean and mean what they say.

**c) *CSR Committee***

Companies should establish CSR committees to review strategic plans, assess progress and offer guidance about relevant, appropriate emerging issues of CSR. Alternatively, companies should adopt guidelines governing their own policies and practices around such issues as employee terms and compensations.

**d) *National Ranking of Companies***

Rankings of companies, based on CSR performance, are already produced by *Asian Business* in Asia. National media publications should perform similar rankings for their national companies to provide motivation for companies to continually improve their CSR practices. There is a need for more public recognition and endorsement of companies that practice CSR.

**e) *State Legislation***

In light of the recent corporate fraud scandals in the United States, a new corporate code was approved to immediately cushion the blow and to immediately demand strict compliance from companies. For this reason, the points underscored by the bill might aid companies in the Asian region to command the same level of compliance from their peers. The highlights of the provisions are as follows:

- Independent financial accounting
- Holding executive management responsible
- Punishment for erroneous actions
- Transparency of financial statements

Transparency is crucial in creating solutions for corrupt practices in the Asian setting, as most companies in the region do not disclose their financial reports.

**3. *Community Development***

**a) *Sustainable Tourism***

Companies can form symbiotic partnerships with indigenous people or welfare organisations. The Banyan Tree Gallery in Thailand showcases and sells cottage crafts and other works of indigenous artisans in an effort to keep their alive traditional arts and crafts, and provide them with employment. The company has made life better for the hill tribes and other indigenous groups by generating work.

**b) *Corporate Volunteerism***

The establishment of corporate community involvement programmes allows employees to undertake social work. Almost half of the 1,800 Hongkong and Shanghai Bank Corporation employees in Singapore are involved in children's charities and elderly programmes. Staff play with and read to children and take them for outings, or befriend the elderly and organise dinners for them. Provision of *pro bono* services for charitable and welfare organisations is an example how people in the legal and accounting profession may contribute to society.

**c) *Corporate Influence***

Companies should recognise that they can play a leadership role in influencing the behaviour of others, through business partners, industry colleagues and neighbouring businesses. It is in everyone's best interests to have as many companies as possible honouring the requirements and expectations of CSR.

**d) *Corporate Philanthropy***

While corporate philanthropy is now disregarded as the sole embodiment of CSR, there are some instances where it still can be practised. Companies can establish programmes designed to fulfil particular issues which include but are not limited to educational initiatives and cultural promotion. Such corporate philanthropy could either be wholly managed by the corporation itself, or undertaken in

collaboration with other organisations. The San Miguel Corporation is an example of a corporation which manages funds and programmes to provide scholarships to underprivileged students and subsidies to cultural groups.

**e) *State Legislation***

To promote volunteerism as a way of life for companies, the state can consider institutionalising an entity. For example, the National Volunteer Centre in Singapore was initiated in 2000 to work with companies that actively seek more innovative and inventive ways of community involvement. It would be preferable if a National CSR Centre be initiated to provide companies with a one-stop information centre on CSR for companies and MNCs.

**4. *Environmental Management***

**a) *Global Sourcing Guidelines***

Companies can learn from Levi-Strauss which requires their subcontractors and suppliers to fulfil specific criteria regarding corporate behaviour. These criteria can include, but are not limited to, issues on environmental protection. The inclusion of environmental protection as an area for global source guidelines enables corporations to adopt a uniform environmental standard which extends to all areas of the corporation including subcontractors and suppliers. The adoption and implementation of global source guidelines can establish a particular environmental standard that the company itself will uphold regardless of the legal environment it operates within.

**b) *Environmental Management Programmes***

Since the operations of corporations undoubtedly have an environmental cost, it is necessary that corporations operate in an 'eco-efficient' manner that uses raw materials more efficiently and minimises environmental damage. Shell Corporation, which engages in deep sea drilling in many Southeast Asian countries, adopts environmental management programmes which use environmental impact assessments (EIA) and the minimisation, if not the eradication, of possible adverse effects on the environment. In areas like Mindoro in the Philippines, for instance, the multi-million-dollar Malampaya Gas Project also initiated programmes which address marine resource protection.

**c) *State Legislation***

Governments should support companies in their practice of environmental CSR through the use of tax systems to internalise the environmental costs of production and the recycling of revenues into subsidies that encourage sustainable production. They can also promote markets for sustainably produced goods and services by implementing stringent environmental standards and certification for food, materials and energy.

**VI Conclusion**

CSR is neither a clear concept nor a central one for ethical business in the global economy. Since no one can say definitively what social responsibility means, no one can strictly apply standards to determine if a company is socially responsible. Hence, different groups may apply different standards, none of which is binding universally.

In general, businesses should make a concerted effort to do the following:

- Recognise that CSR is important for their growth and development.
- Increase CSR awareness amongst all Asian companies.
- Fulfil all legally required social responsibilities.
- Consider voluntarily performing CSR activities beyond those legally required.
- Inform all relevant individuals of the extent to which their organisation will become involved in performing socially responsible activities.

Corporations, as well as other stakeholders such as civil society and governments, should keep in mind that CSR is limited neither by political nor economic boundaries. CSR can be pursued in a concerted manner. Agents like NGOs, community groups and government ministries can collaborate with each other – both within and beyond their physical borders. In Asia, by sharing information, technology and other kinds of assistance, countries in the region as a whole are likely to gain the most out of CSR practices.