

# CSR IN ASIA

THE REAL PICTURE



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## PREFACE

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This report has been written for those people interested in the corporate social responsibility (CSR) landscape in Asia and those businesses who have operations in the region. It is aimed at creating an awareness of the particular characteristics of CSR in Asia and points towards the challenges that businesses will have to engage with when operating in the region.

There is a lack of information in the marketplace about CSR in Asia. Much of what does exist misses the context of Asia and fails to grasp the enormity of some of the challenges facing the region. There is often a misconception of what businesses in the region are doing (or not doing) in terms of their CSR activities. The aim of the publication is therefore to present a view on the current position in Asia.

Asia is a dynamic place and home to some of the richest and many of the poorest people in the world. The nature of its rapidly growing economies results in huge opportunities for businesses but also great challenges. Government is strong, civil society is weak. But most would agree that there is a significant role for the private sector in helping to tackle the region's remaining challenges.

CSR contributes to the attainment of sustainable businesses. There are three key elements for CSR in the region. Firstly, consider the needs of future generations. Secondly, recognise the limitations of the planet and the carrying capacity of our environment. Thirdly, recognise the importance of development and the over-riding needs of the world's poor.

Companies operating in Asia have a responsibility to act in a way that benefits the people of the region whilst protecting its important natural environment. The private sector has the ability to create wealth, provide jobs, reduce poverty and offer much needed products and services but it must do so in a socially responsible way. Yet, working out what is perceived as socially responsible is not always so easy in Asia. Stakeholders have hugely differing concerns and aspirations. Nevertheless, through this publication we hope to provide some guidance to help businesses with CSR in Asia.

## EXECUTIVE SUMMARY

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Asia is different. Just because certain corporate social responsibility (CSR) practices might work in the West does not mean that they will work well in Asia. As with other regions, CSR in Asia must be shaped by Asian challenges and the priorities of Asian stakeholders.

There are many drivers of CSR in the region, including powerful institutions such as government and stock exchanges which are putting in place requirements, voluntary initiatives and standards to encourage CSR. In some countries we are seeing a move away from voluntary approaches to CSR and the mandating of certain activities through the law.

Businesses themselves are recognising the value of CSR in establishing recognised brands, enhanced reputations and trust. CSR as part of a recruitment and retention strategy is becoming important. Transparency and accountability among most companies in the region remains poor. Yet reporting has increased, albeit from a small base.

There is recognition, particularly from the financial sector, that there are huge risks and opportunities in Asia relating to the environmental, social and governance (ESG) issues. New indices and ratings are now tracking the performance of companies in the region based on ESG indicators.

Stakeholders are increasingly sophisticated and outspoken. The growth of social media has created a new challenge for companies operating in the region and a new emphasis on the need to track emerging issues. There remains a particular concern about the risk of outsourcing to increasingly complex supply chains and attacks on brands that ignore such risks are on the increase.

Particular challenges in the region include under-developed governance structures within companies and a continued concern about bribery and corruption. The region is particularly prone to the long term impacts of climate change leading to significant business risks. Concerns over labour abuses and human rights violations remain. There is also considerable attention now being given to companies' impacts on local communities. Product safety has been a source of many scandals and we are seeing a new emphasis being placed on product responsibility.

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Across Asia, local CSR initiatives and CSR issues vary hugely. In China we have seen much interest from the government which has developed a number of guidelines and initiatives around CSR. In Hong Kong, NGOs have demanded improved CSR initiatives from large listed companies. Some companies are global leaders on CSR, but others are lagging behind.

In both Malaysia and Australia we have seen significant leadership on CSR issues from stock exchanges. In Vietnam, we are seeing leadership from the Chamber of Commerce working in partnership with the United Nations Development Programme. Singapore's approach is a tripartite one including business, government and trade unions.

In both Japan and Korea there has been an emphasis on reporting. Japanese companies, in particular, have been leaders on environmental initiatives. A huge number of voluntary initiatives are apparent when one considers CSR in India. Bangladesh has introduced tax exemptions for companies engaging in CSR programmes and in Sri Lanka there has been an emphasis on CSR in small enterprises and linking CSR initiatives to peace in the country.

That is not to suggest that everything is positive. There is still a huge confusion between CSR and philanthropy which is probably best exemplified by many of the business practices in the Philippines. In Pakistan, research has shown a very poor understanding of CSR in the private sector. Governance has been a focus in Thailand but other aspects of CSR are under-developed. In Indonesia, highly controversial laws covering CSR have been enacted and are now being opposed by businesses who accuse the government of merely introducing a social tax.

International initiatives on CSR have had a limited impact in Asia. Many are actually viewed, not as international, but as rather Western focused. Whilst international initiatives still have a role to play, it should be recognised that many countries in Asia prefer their own local versions of such initiatives. Localised adaptations of international standards and guidelines are abundant.

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There are huge opportunities for rolling out CSR practices in Asia and carefully planned initiatives can bring benefits for communities and benefits for business. But businesses should start with a vision of what they want to achieve in an Asian context and not simply replicate Western programmes.

Initiatives that focus on key challenges such as the environment and climate change, supply chain concerns and pro-poor community development will have a big impact. Yet, the very nature of doing business in the region must also be considered. Creating markets among poor people and helping to develop social enterprises and social entrepreneurship are important aspects of poverty alleviation and economic development. Making sure products and services are responsible and add value to the needs of people in Asia is also central to a good CSR strategy.

Businesses operating in Asia need to understand the context of CSR in the region. There is a need to assess the materiality of operations and impacts on the environment and society. Here stakeholder engagement is important in understanding what is relevant and to whom. Linking initiatives to brand and reputation creates a strong business case for CSR. Yet, it must be matched by a willingness to measure the impacts of CSR programmes and a genuine commitment to transparency and accountability.

Asia is dynamic and the future will be different. Companies in Asia will need to map emerging trends, recognise growing stakeholder sophistication and align CSR with Asian challenges. New emerging Asian multinational corporations which are increasingly adopting CSR strategies of their own are going to create formidable competition for today's global brands.

## KEY DRIVERS OF CSR IN ASIA

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### Institutional drivers

There are increasing number of government actions in Asia to guide or legislate CSR activities. Many experts believe that eventually some Asian governments will be likely to adopt similar European frameworks to regulate mandatory reporting and disclosure.

The Japanese government has demonstrated itself as an advocate for CSR promotion in particular through environment related and climate change specific legislation. With the Environmental Reporting Guidelines and the Law Concerning Promotion of Environmental Consideration in Business Activities, enacted in 2004, it has been promoting environmental reporting far earlier than other governments in the region. With the introduction of a mandatory Greenhouse Gas (GHG) Accounting and Reporting System, entities emitting large amounts of GHGs are now obliged to calculate and report these emissions.

In the case of China, the government's response has been to promote CSR locally, through influencing the behaviour of its state-owned enterprises. In 2006, the government published Guidelines for Publishing Corporate Responsibility Reporting in China. The government is promoting CSR as a means to improve the brand, reputation and competitiveness of Chinese companies and is encouraging them to publish reports. We are not at the stage where governments are responding with sanctions or implementing mechanisms to enforce such regulations. However, with the central government of China taking a stance on promotion and spreading awareness, it indicates that CSR is on their agenda.

Some stock exchanges in the region have also encouraged CSR disclosure and in some cases have added to regulatory pressure. Prominent stock exchanges are requiring disclosure of certain CSR information, while others require a degree of mandatory reporting. However, few have mechanisms in place to enforce these requirements or enact necessary sanctions.

With the exception of Vietnam, we can find some form of regulations, codes, awards, or market initiatives that encourage sustainability reporting in each of the region's emerging economies. Malaysia is the most advanced in this respect.<sup>1</sup>

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Prominent international NGOs have also been vocal in the region, demanding greater responsibility from companies. They are well versed in CSR from their dialogue with companies in Europe and North America. Oxfam Hong Kong, for example, emphasises the need for Asian companies to become accountable for their supply chains. Supply chain transparency is especially relevant argues Oxfam because it is through these company operations that the poor can experience social mobility through their own capabilities.<sup>2</sup>

World Wildlife Fund's discussion on CSR centres on demonstrating the incentive for companies to think about long-term sustainability over short term financial gains. WWF believes that binding rules are necessary along with the encouragement of voluntary initiatives in order to make effective moves toward sustainable development in the region.<sup>3</sup>

Greenpeace China recently released a report entitled 'Silent Giants: An Investigation into Corporate Environmental Information Disclosure in China', which found that 28 top multinational and Chinese corporations violated a Chinese environmental regulation that requires companies to publish their pollution information within 30 days of being reported by a local environmental bureau for breaking pollution standards. The report pointed to corporate disregard for Chinese environmental laws and weak enforcement by the government.

## The move from voluntarism to the law

The move away from the traditional emphasis on voluntarism towards the enactment of laws covering the social and environmental responsibilities of companies is a particular characteristic of the region. Many of these laws require government owned companies or companies listed on a specific stock exchange to disclose. There is increasing evidence that companies in the region are looking for regulatory consistency on CSR issues. A Salterbaxter report, for example, indicates that European multinational companies, operating extensively in Asia, are looking for increased regulation specifically in the area of carbon reduction or energy efficiency targets.<sup>4</sup>

Many politicians in the region seem to believe that CSR regulation is important for shaping a sustainable development framework. To some

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extent this reflects a misunderstanding of the role of CSR. While mandatory reporting or disclosure requirements are a positive step forward, other laws have amounted to what might be considered as a social tax on business. Politicians tend to forget that CSR needs to be more than compliance driven. CSR is about taking the initiative and finding out what is expected from stakeholders, rather than taking the passive route and waiting to find out what the law will dictate.

## Corporate drivers

It is clear that more companies in Asia are now beginning to understand the business case for CSR. In countries such as Japan and Australia, where CSR has a clear history, companies often have sophisticated CSR strategies. But in other parts of Asia, companies are only starting to recognise the role of CSR in establishing a brand, influencing its reputation and creating trust.

Sound environmental practices can reduce costs for a company, particularly in the manufacturing sector. Yet in much of Asia this is poorly understood, and there may be out-dated management systems, old technology and a drive to make products at ever cheaper prices. The nature of much of the outsourced manufacturing in the region means that labour standards and health and safety issues can be seen as more important than environmental issues.

Nevertheless, with some Asian companies now establishing their own global brands, they are realising that reputation and brand can be enhanced by good CSR. Outsourcing companies, such as the electrical giant Haier, have a brand of their own and a global reach. It is likely that such brands will become more interested in demonstrating good CSR practices. But large well-known brands are also a source of risk. From India to China, corporations have come under increased scrutiny.

Large corporations have found themselves under attack over allegations of unethical conduct across Asia on issues as diverse as workplace discrimination, health tests, sackings, water exploitation and environmental degradation. Tellingly, increased attention is being paid to local companies as well, including manufacturers who provide goods to global brands.



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Good governance is at the heart of the business case for CSR. The emphasis is often on good governance structures and good risk management creating trust and delivering access to capital. In 2008 consumer trust in a major brand was betrayed when Chinese milk producer Sanlu sold contaminated milk products made for children.<sup>5</sup> The Sanlu case is an example of a brand that lost credibility, especially in some foreign markets. Scandals over lead paint in toys, fake toothpaste, tainted dog food and others have dented the reputation of many Chinese manufacturers. Many are now looking at CSR as a way to rebuild trust.

On the other hand, companies such as Hong Kong-based Cathay Pacific have put effective measures in place to build trust within the community. Cathay Pacific has committed itself to a five-year stakeholder engagement strategy with the aim to identify the aspirations and concerns of a wide and diverse group of stakeholders and to drive change within its operations.<sup>6</sup> The airline company has been one of the leaders on CSR issues in the region; seeing CSR as an important part of its positioning as a premium brand. The company has taken an impressive stance on climate change issues both regionally and globally.

## Transparency and accountability

In many Asian countries, families still have controlling interests in some large listed companies and some question whether in such circumstances companies are run in the interests of all stakeholders. Transparency is an essential step to CSR. It opens companies' conduct to public scrutiny and indicates that a company values the opinions of its stakeholders.

A large number of Asian companies are challenged by issues around transparency and accountability. Few have CSR reports and many have little information available on their websites, relating to their responsibility. Yet, it is clear that stakeholder expectations relating to reporting and disclosure are increasing. Investors and the financial community, in particular, are increasingly concerned about material risks associated with environmental, social and governance (ESG) issues.

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The rise of organisations such as the Association for Sustainable and Responsible Investment in Asia (ASRIA) and Singapore based analyst Responsible Research demonstrate an interest from the investment community. Both organisations aim to build capacity for socially responsible investment and track the issues that investors are increasingly interested in. The region is now seeing an increasing number of benchmarking reports and socially responsible indices as demanded by fund managers. Those companies who do not score well in the assessments will seek help to establish CSR practices.

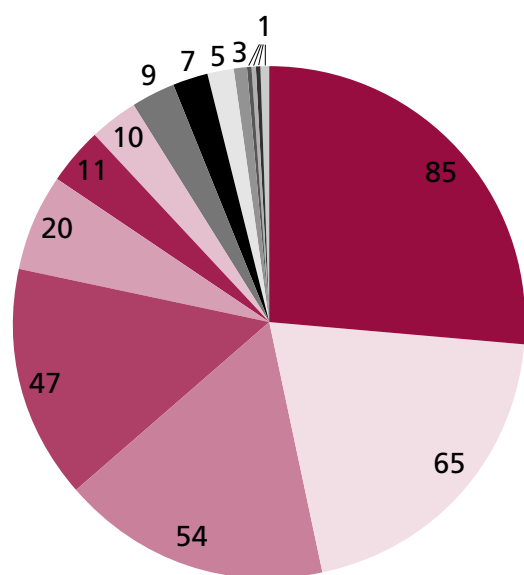
According to the most updated Global Reporting Initiative (GRI) Report List, published in January 2010, 1,265 companies reported according to the GRI guidelines in 2009. But only 320 Asian companies published GRI reports in 2009, constituting 25% of all GRI listed reports. If Australia and New Zealand are excluded, 260 Asian companies constitute 21% of global GRI reports. These figures, when compared with those of 2008, demonstrate an increasing trend in the uptake of GRI reporting in Asia. Japan, Australia and Korea were responsible for the majority of the reports, contributing 85, 65, and 54 respectively.
















## Oxfam's Transparency Reports

Oxfam Hong Kong has issued two transparency reports for garment companies in Hong Kong, urging companies to disclose information about labour practices along the supply chain. Oxfam's latest research, published in 2009, included more companies but found that only a few were more transparent than in the previous year. The report argued that the majority of companies were still far from satisfactory in terms of their labour practices and health and safety initiatives. Oxfam Hong Kong has called on garment companies to be more transparent and for consumers to exercise their rights by choosing to purchase only ethically produced clothes.

*Source: Oxfam Hong Kong (2009) Transparency Report II. Have Hong Kong garment companies improved their reporting on labour standards? Oxfam Hong Kong.*

Figure 1: Breakdown of GRI reports in Asia (source: Global Reporting Initiative)



	Japan	- 85 GRI reports
	Australia	- 65 GRI reports
	Korea	- 54 GRI reports
	China	- 47 GRI reports
	India	- 20 GRI reports
	Taiwan	- 11 GRI reports
	New Zealand	- 10 GRI reports
	Philippines	- 9 GRI reports
	Malaysia	- 7 GRI reports
	Singapore	- 5 GRI reports
	Thailand	- 3 GRI reports
	Indonesia	- 1 GRI report
	Pakistan	- 1 GRI report
	Papua New Guinea	- 1 GRI report
	Sri Lanka	- 1 GRI report

Following behind was China (Hong Kong companies included) and India, with 47 and 20 reports respectively. GRI provides a reporting guideline which is adopted by many companies in the world.

The lack of reporting and disclosure is linked to the unwillingness of many companies to be transparent and accountable. Many express the view that reporting will bring with it adverse criticism. Others may have aspects of their business that they do not want to disclose. However, encouragement from government, pressure from stock exchanges and demands from a broader and more sophisticated stakeholder base is likely to result in increased reporting in the future.

The launch of the Asian Sustainability Rating™ (ASR™) in 2009 is perhaps a reflection of the fact that investors are increasingly becoming interested in the performance of Asian companies based on ESG criteria. The ASR covers the top twenty companies by market capitalisation in ten Asian markets.<sup>7</sup> It serves as a simple open source, benchmarking tool, which investors can use to assess which companies are addressing basic elements of sustainability and its disclosure. Table 1 shows that Australian companies dominate the 2009 ASR (twelve out of the top twenty companies analysed).

Table two shows the relative rankings of countries according to the six areas that make up the 51 indicator index. It demonstrates the dominance of Australia. After that comes India, Japan, China, Hong Kong, Malaysia, the Philippines, Thailand, Singapore and Pakistan. Leaders tend to be the largest companies with recognised brands who clearly see disclosure as an important aspect of their reputation. Notable, however, is the strong performance of Japanese companies on the Environment and leadership from Indian companies on the Community and Development indicators.

Table 1: The Top 20 Performing Companies on the Asian Sustainability Rating

Rank	Company	Stock Exchange	Score (%)
1	ANZ Banking Group Ltd.	Australia	98.0
2	BHP Billiton Limited	Australia	95.1
3	Tata Consultancy Services Ltd.	India	90.2
4	Westpac Banking Corporation	Australia	89.2
5	Telstra Corporation Limited	Australia	89.2
6	National Australia Bank	Australia	87.3
7	ITC Ltd.	India	85.3
8	Rio Tinto Limited	Australia	84.3
9	Woolworths Limited	Australia	83.3
10	Wesfarmers	Australia	82.4
10	Origin Energy Limited	Australia	82.4
10	HSBC Holdings	Hong Kong	82.4
13	Alcoa Inc.	Australia	81.4
14	Newcrest Mining Ltd.	Australia	80.4
14	Infosys Technologies Ltd.	India	80.4
14	The Siam Cement Public Company Limited	Thailand	80.4
17	Larsen and Toubro Ltd.	India	79.4
17	Mitsui and Co., Ltd.	Japan	79.4
19	Commonwealth Bank of Australia	Australia	78.4
20	British American Tobacco (Malaysia)	Malaysia	77.5

Table 2: Country scores on the Asian Sustainability Rating

% of Total Indicator Score	Total Country Score	Governance, Codes, and Policies	CSR Strategy & Communication	Marketplace & Supply Chain	Workplace & People	Environment	Community & Development
Australia	68.3	83.3	68.2	59.0	61.7	70.3	51.5
India	53.2	74.0	44.5	34.0	52.0	47.8	53.0
Japan	50.7	49.8	60.7	41.5	47.0	70.6	15.5
China	43.5	66.5	41.6	22.0	33.8	34.4	48.0
Hong Kong	42.0	67.3	37.3	32.5	27.0	37.5	38.5
Malaysia	36.0	59.6	23.4	34.0	27.3	28.4	39.0
Philippines	31.7	47.5	36.6	14.5	15.3	26.9	41.0
Thailand	29.5	63.3	23.2	12.0	17.5	15.9	25.0
Singapore	25.5	50.8	14.1	14.5	20.8	20.9	18.0
Pakistan	18.0	35.2	10.2	16.5	7.3	19.1	15.5
<b>Average across countries</b>	<b>39.8</b>	<b>59.7</b>	<b>36.0</b>	<b>28.1</b>	<b>31.0</b>	<b>37.2</b>	<b>34.5</b>
<b>Best</b>		<b>Australia</b>				<b>Japan</b>	<b>India</b>

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## The new media

There is no doubt that the new media (and especially social media) is now playing an important role in driving CSR in the region. There are 81 million bloggers drawn from a community of 340 million internet users engaged in online discussion about contemporary issues in China.<sup>8</sup> Research by public relations company Edelman shows that the growth of internet users' year-on-year in China is in the vicinity of 40%. In Korea, 47.8% of the population subscribe to CyWorld, a popular online social network, and 45% of Koreans are bloggers.<sup>9</sup>

The last three years have seen a dramatic rise in ordinary people posting information online about their own experiences with unethical corporate conduct. Much of this is subsequently picked up in the mainstream media. Civil society organisations have started to use social media as a potent means to pressure corporations to act ethically.

There are two major shifts occurring that Western companies operating in Asia have yet to fully appreciate. The first is that Asian stakeholders are developing very clear views about how companies should behave. The second is that the Internet has given these stakeholders a platform to do exactly what Western stakeholders have been doing for many years: making their voices heard. The major implication of this is that companies should no longer simply be listening to Western stakeholders but seeking out the views of an increasingly sophisticated and vocal Asian stakeholder landscape. Few companies have yet developed strategies to do so and are consequently pushed into a reactive stance when crises emerge rather than having a strategic programme in place.

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## The financial sector

Investors are taking ESG issues into account when making their investment choices. A global survey by investment consulting firm Mercer indicates that investment in sustainable investment funds in emerging markets has grown to more than \$300 billion – a more-than-fivefold increase between 2003 and 2008. \$50 billion of this amount reflects funds which are specifically branded as socially responsible or sustainable, while the remaining amount represents mainstream managers who take environmental, social and governance (ESG) issues into account.<sup>10</sup>

Investors' interest in ESG issues continues to grow in the Asia-Pacific region, with the number of SRI funds in Japan growing from 60 to 67, and in Taiwan from three to 15 in early 2009.<sup>11</sup> In the region's emerging markets, however, insufficient information on how companies manage environmental risks and opportunities hinders investors' ability to make sound long-term investment decisions. As funds continue to grow and as new funds emerge in the Asian region, there will be mounting pressure on Asian businesses to demonstrate better CSR practices.

### Case study: Norway's Government Pension Fund

In 2008, the Norway Government Pension Fund Global sold its entire Rio Tinto holdings – worth an estimated \$880m – and put the firm on an investment blacklist due to environmental risks, due to the suggestion that the group was causing environmental damage in the Indonesia-controlled Papuan highlands in New Guinea.

About 30 companies are on the list of companies the fund will not invest in as they do not meet ethical guidelines set by the government.

*Source: Ethical Corporation News 17 November 2008*

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But it is not just niche socially responsible investors that are worried about ESG risks in Asia. For developing nations, particularly in Asia, the conditions for loans and investment from the International Finance Corporation (IFC) and World Bank will be increasingly dependent on whether it will be invested with sustainable development in mind. More banks in the region are now signing up to the Equator Principles that set out responsibility requirements for project financing. Others are simply recognising that there are huge non-financial risks associated with consumer boycotts, community-level protests, the media's exposure of unethical practices and a growing societal demand for environmental responsibility.

## Staff recruitment and retention

Recent demographic trends in Asia have brought about a battle for talent. With the demographic pyramid having inverted in a lifetime in Taiwan – from a typical population growth pyramid in 1990 (with most of the population 29 years and under) to an aging population pyramid by 2050 (with most of population 50 years and above)<sup>12</sup> – business will be facing an employee shortage by the end of the next decade. This is equally true for China, (including Hong Kong), Japan and the rest of North East Asia.

Attracting and retaining employees is rapidly becoming one of – if not the – most important issues faced by business in the region. According to recent research, reputation for being a responsible company is influential in attracting and retaining talent. Hill & Knowlton's Corporate Reputation Watch 2008<sup>13</sup>, for example, showed that nearly half of the students interviewed at Asian business schools consider CSR to be an important aspect of a company's reputation. In particular, employee volunteering programmes can have positive effects on staff recruitment and retention. An online survey of 136 employers conducted by Volunteering Australia showed that the majority of respondents with employee volunteering programmes reported positive effects on retention, job satisfaction and/or productivity.<sup>14</sup> A similar survey among job seekers "indicated a high rate of participation and interest in volunteering programmes" and showed that "for many survey respondents, having a volunteering programme available is a factor when choosing between similar job roles, and for some people it is a stronger factor than salary".<sup>15</sup>

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## Supply chain concerns

Asia is increasingly being seen as the workshop of the world. With increasing consumer pressures for more responsible products, there is perhaps even more attention being placed on Asia's complex supply chains. Once the target of the anti-sweatshop movement, supply chain pressures have become much more sophisticated. As well as concentrating on labour and human rights abuses, attention is now also on the environment and product traceability.

Supplier codes of conduct and the use of social accountability standards such as SA8000 have become a common approach for businesses involved in outsourcing, purchasing and trade. Increasingly environmental concerns are being taken into account. A particular emphasis for the future may be carbon emissions calculations across the whole supply chain resulting in product carbon foot-printing and product labelling.

Many initiatives are taking place at an industry level with cooperation between large brands that will certainly drive change amongst Asian manufacturers. For example, the Electronic Industry Citizenship Coalition (EICC) promotes an industry code of conduct for global electronics supply chains to improve working and environmental conditions. Leading companies including Dell, Microsoft, HP, Samsung Electronics and Sony are members of EICC and promote the EICC Code of Conduct (or their versions of it) in their supply chains.<sup>16</sup>

Interestingly, however, a number of large first-tier suppliers in Asia are also recognising that good CSR is good for business. They have recognised that being pro-active can enhance their own (lesser known) brands and deliver more trusting and long-standing relationships with their customers. Central Textiles (Hong Kong) Ltd., a yarn manufacturer, published its first Sustainability Report in March 2009 and it is believed to be the first Asian mill to report on its CSR programme.

## ASIAN CHALLENGES

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### Corporate governance

Corporate governance has become a major concern of stakeholders in Asia who, after the economic turmoil of 2008 and 2009, are looking for more transparency in the activities of business. Much of the economic crisis is being blamed on bad decision-making on the part of (Western) senior executives, unchecked by the sorts of governance structures that could have prevented the mistakes that were made. But the lessons learned from what started in the West are now rapidly being applied to Asia. And what many are pointing to are insufficient checks and balances in most boardrooms, insufficient transparency and a lack of accountability.

With many Asian companies being controlled by a single shareholder grouping (usually an individual or family, and in some cases, the government or military) unfavourable treatment of minority shareholders and inter-company transactions that favour the interests of the controlling shareholders are not uncommon. Inadequate coverage and timeliness of financial and other relevant business information may invite fraud and insider trading, putting the long-term viability of some companies at risk.

The increasing number of media reports relating to corruption, bribery, insider-trading, money laundering and falsification of records across the region indicates a prevailing culture of poor governance in many companies. Research published by Transparency International in 2009 shows that corruption in and by the private sector in Asia is of growing concern to the general public. Half of those interviewed perceive the private sector to be corrupt. Notably, more than half of respondents held the view that bribery is often used to shape policies and regulations in favour of a company's interests.<sup>17</sup>

Kroll's Global Fraud Report 2009/2010 showed that the proportion of companies in the region considering themselves highly vulnerable to corruption and bribery rose to 15% from 10% compared to the previous year's report. When it comes to fraud the biggest areas of concern in the region are vendor and procurement fraud and regulatory breaches.<sup>18</sup>

## The environment and climate change

The way that businesses impact on the environment is coming under much closer scrutiny in Asia and environmental performance is increasingly part of a company's reputation and brand.<sup>19</sup> Climate change, air pollution, water scarcity, deforestation, loss of biodiversity and land-use change are the biggest environmental challenges in the region. Areas most vulnerable to climate change include Asia's highly-populated mega deltas which will be, and already are, affected by sea level rise and storm surges.

The Pacific small islands are prone to sea-level rise, coastal inundation and ecosystem instability while the region's fragile mountain ecosystems are facing unprecedented climate change threats resulting from irreversible glacial melt and downstream flooding, with consequent reduction in agricultural outputs.<sup>20</sup> Bangladesh, which is expecting its current population of 165 million to increase by another 100 million in the next 60 years, is the most vulnerable large country in the world, with 60% of its land less than five metres above sea level.

Resource-dependent sectors, (e.g. forestry products, food and beverages, and oil and gas) which are important to Asia's emerging economies, will be most affected by the physical impacts of environmental trends including disruption in production due to a lack of water or severe weather-related damage to company assets.

Yet, there is still more to do in tackling even the most basic of environmental impacts. Throughout most of the region penalties for violation of environmental laws and standards are still low which results in companies incorporating related fines in the cost of doing business rather than making the necessary investment to comply with the law.

The environment and climate change are set to continue dominating CSR agendas for the next decade<sup>21</sup> and the emergence of China as a key player in this discourse will create a new impetus for Asian business. There is a new emphasis on climate change adaptation in Asia because it is likely to feel the impact of change more seriously than any other continent. Companies across Asia will have to demonstrate how they contribute to climate change adaptation in the communities in which they operate.

The Challenge	Its manifestation	Its impacts
Deforestation	<ul style="list-style-type: none"> <li>Forests are disappearing at an alarming rate</li> <li>Although South East Asia still contains 16% of the world's remaining tropical forests, between 1995 and 2005 the region accounted for 25% of global forest loss. Indonesia's forests suffered the greatest loss.</li> </ul>	<ul style="list-style-type: none"> <li>Shortage and increased prices for raw materials</li> <li>Changes in consumer preferences</li> <li>New markets and revenue opportunities</li> </ul>
Water scarcity	<ul style="list-style-type: none"> <li>High demand for water, coupled with water pollution, means that water reserves are being used faster than they can be replenished.</li> <li>Water scarcity is increasingly a problem for parts of India, Indonesia, and Thailand.</li> <li>Experts estimate that by 2020, India's demand for water will exceed all its sources of supply.</li> </ul>	<ul style="list-style-type: none"> <li>Increased scarcity or costs</li> <li>Greater competition among users</li> <li>Regulation</li> </ul>
Climate change	<ul style="list-style-type: none"> <li>Due to their long coastlines, low-lying land areas, high population densities, high incidence of poverty, and geographic location, emerging economies such as Vietnam and Bangladesh are particularly vulnerable to the physical risks associated with climate change.</li> <li>Due to mounting energy use, as well as deforestation and changes in land use, GHG emissions have been increasing and countries are under international pressure to reduce emissions and shift to low-carbon technologies.</li> <li>The intensity of GHG emissions in Malaysia and Indonesia, mostly from deforestation and changes in land use, are close to or above the world average.</li> </ul>	<ul style="list-style-type: none"> <li>Damage to assets</li> <li>Disruption of operations</li> <li>Regulation</li> <li>New markets and revenue opportunities</li> </ul>
Air pollution	<ul style="list-style-type: none"> <li>As the countries in the region have become more industrialised and motorised, the air quality of their cities has deteriorated.</li> <li>In 2007 the World Health Organisation (WHO) estimated that air pollution in Asia was responsible for the premature death of about half a million people each year, due to the exposure of more than a billion people to outdoor air pollutant levels above WHO's guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>Lower productivity</li> <li>Damage to assets</li> <li>Changes in consumer preferences</li> <li>Regulation</li> </ul>

Table 3: Environmental challenges in the Asia-Pacific region (adapted from Krechowicz, D. and Fernando, H. (2009) Emerging Risk: Impacts of Key Environmental Trends in Emerging Asia. World Resources Institute and International Finance Corporation)

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## Supply chains

Poor workplace practices and associated labour and human rights issues continue to be a challenge in Asia. Payroll irregularities surrounding working hours, payment of wages and overtime compensation continue to be a concern to many brands outsourcing their production. Almost all jurisdictions in Asia have minimum wages, legislation on maximum hours and overtime remuneration laws. Comprehensive health and safety standards exist in all countries, and most countries are signatories to international conventions aimed at preventing child, forced or slave labour (and have comprehensive local laws to prohibit such practices). Nevertheless, abuse of such laws is widespread.

Given that many employees in factories are migrants (either internally from rural to urban areas or externally from one country to another), their awareness of the law is often not complete and their potential abuse is a serious concern for both governments and large brand name companies. In some countries, migrants do not enjoy the same protection under the law. This includes migrant workers within China and migrants from other countries working in Japan or Korea, for example. Migrant workers are often denied fair access to the rule of law. In China, Thailand and India accessing the legal system is often protracted, expensive and exceptionally difficult for a migrant worker.

Most risks in the supply chain can be traced to two key issues:

- i) whether clients can truly know if factories are complying with their contracts, codes of conduct or other standards; and
- ii) whether the ways in which goods are purchased is detrimental to labour or environmental conditions.

In the first instance, the major problems concern verification and falsification of data. It is virtually impossible to know what happens in factories on key labour and environmental issues. Apart from the complexity of the modern supply chain (and the physical impossibility of maintaining a presence in that chain), it is widely acknowledged that many suppliers falsify data to deceive clients and maintain contracts.

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The levels of fraud and corruption in any supply chain is unknown but anecdotal evidence suggests it may be widespread and sophisticated. Global brands, retailers and others sourcing from Asian supply chains do not have significant on-the-ground presence in Asia and have difficulty managing the risks associated with their sourcing.

The second key issue relates to purchasing practices. The price for manufactured goods is either stagnant or decreasing but the demands for, and the costs of, social and environmental compliance is increasing. The resulting squeeze on profits has made it impossible in many sectors to be both financially sustainable and socially and environmentally responsible. Ethical sourcing in many sectors may still be an elusive dream.

## Poverty

During the 1990 to 2007 period, the number of people living on less than \$1.25 a day decreased from 1.8 billion to 1.4 billion in most Asian countries, thanks largely to rapid economic growth in China, which helped lift 475 million people out of extreme poverty.

However, after the economic crisis there is concern in many countries that progress towards the attainment of the United Nation's Millennium Development Goals may have been reversed. The fight against extreme poverty have stalled in some locations. It is estimated by experts that additional 30 to 50 million people across Asia will be living in extreme poverty due to economic crisis.

Interesting, while rural poverty has declined significantly in Asia, urban poverty has been rising recently. Because urban poverty is different in nature from rural poverty, there is a concern that the approaches to poverty reduction that were developed for rural areas may not work in cities and towns.<sup>22</sup> Since urban employment is largely a result of inward investment from the private sector, it could be questioned whether the benefits of that investment has been evenly spread.

Whilst undoubtedly the private sector has been the greatest contributor to the reduction of poverty in the region, there is still more than it can do. It



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needs to ensure that those in employment are protected, wages paid and hours worked are fair. But it also has a role to play in tackling some of the most acute forms of poverty, where the economic development of the past two decades has not made significant inroads. Businesses can help fight poverty by doing what it does best: business. But as well as providing jobs, we discuss later in this report the key role businesses can play in creating new business and stimulating entrepreneurship.

## Community impacts

Philanthropy is often confused with CSR in Asia. Many companies seem content to maximise their profits, and then by giving some of them away, they try to assuage their guilt over how those profits were made. It is increasingly acknowledged that while philanthropy can have a positive impact on society it cannot substitute a real assessment and programme of action to address a company's adverse impacts on local communities. Those adverse impacts can be huge when they remove people's livelihoods, displace them from their homes and destroy local environments.

Good community investment strategies contribute to the sustained well-being of communities with a positive impact for community and business. A property developer working with people who are disabled to design friendlier buildings; soft drink manufacturers investing with communities to protect watersheds; financial institutions teaching financial literacy to poor women – all are examples of strategic community investments.

Although its meaning is not well defined, the social license to operate has emerged as an important aspect of CSR practices. This is particularly the case for high impact industries such as those in the natural resources sector or extractive industries that have had big impacts on local communities and the environment. With their operations directly impacting local people through the use of land, water and other resources, it is increasingly important for these industries to integrate the social dimension into new projects in order to ensure economic certainty.

A company's ability to gain the approval of the host community cannot only affect the project's success but also have a lasting impact on a company's

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reputation. Community protests are abundant and have included demonstrations in China over the siting of chemicals plants, the Philippines over plantation expansion plans, Malaysia over palm oil production, land grabs in Cambodia and the environmental impacts of mines in Indonesia. Where once protests might have been curtailed by police and security forces, there is now an increasing tolerance of community action across most of Asia and online protests, such as Facebook action campaigns, can now have immediate and global implications for the brand in question.

With a new emphasis on investment rather than aid, more companies are following a strategic approach where measurable goals are set. They also demand reports on progress and work with communities involved through consultation and partnerships formed with governments, NGOs and other stakeholders. Another key aspect is measuring impact rather than the inputs and outputs by means of clear performance indicators and a clear vision of what change the company seeks to achieve in a community.

Within Asia's fast growing high impact industries there is huge potential for community investment strategies that measure impacts on communities and put in place pro-poor development programmes. Over the last two years there have been reversals in the progress towards meeting the Millennium Development Goals in countries such as the Philippines, Indonesia, Pakistan, Bangladesh and Cambodia. Yet there is a real role that the private sector can play if they target their community investment towards the poor, women and other disadvantaged groups.

## Human rights

There is clearly an increased focus on human rights in Asia and that poses a number of challenges to businesses operating in the region. As there is a need for greater transparency and accountability in developing countries. NGOs are increasingly vociferous about human rights issues and lawmakers in many countries are raising their own concerns over corporate conduct that sometimes leads to human rights abuses.

Whilst most companies are unlikely to be directly responsible for human rights abuses, it is complicity with the abuse of human rights which pose

## Shell's approach to community consent in the Philippines

Malampaya Deep Water Gas-to-Power Project – a joint venture of the Royal Dutch Shell subsidiary Shell Philippines Exploration (SPEX), Chevron Texaco, and the Philippine National Oil Company (PNOC) – is the largest industrial development in the Philippines.

The project extracts natural gas from below the seabed off the coast of Palawan Island and transports it more than 500 kilometers by undersea pipeline to a natural gas refinery plant in Batangas City on Luzon Island.

To gain community consent for this high-impact project Shell employed the following four strategies:

- ❖ community outreach and interviews with key opinion leaders and decision makers;
- ❖ information dissemination, education and communication activities;
- ❖ perception surveys and participatory workshops to introduce the project and validate initial survey results; and
- ❖ participatory involvement in the formulation of environmental management plans.

Based on these activities, the project sponsors not only made significant changes to the project but also maintained and cultivated its relationships with the affected communities during project operations. Thus the project succeeded in gaining community support for the project and significant, documented financial savings to the company.

*Source: Sohn, J., Editor (2007) Development without conflict. The business case for community consent. World Resources Institute, Washington, D.C.*

a major risk to business. Being complicit, by ignoring the human rights abuses of business partners (particularly suppliers) is one risk. But there are also risks associated with beneficial complicity where a company simply gains economic advantages by a human rights abuse perpetuated by, for example, a government. Legal cases against companies seen as complicit with human rights and class action law suits on behalf of those claiming damages abound.

Labour rights are increasingly being seen as human rights and the treatment of workers is seen as a human rights issue. Strikes and social unrest linked to abusive working conditions are on the rise. In the last two years in Vietnam mounting social unrest has seen thousands of workers join strikes for better pay and working conditions.

With 70% of the world's aboriginals living in Asia<sup>23</sup> respecting the rights of indigenous populations is a central issue of doing business. It includes the right to recognition of traditional ownership, occupation and use of land, and the right to cultural identity. Ethnic discrimination remains a common feature in Asia in both the region's developing and developed countries.

## Product responsibility

We have already seen that a number of product scandals have dented the brand names of many companies sourcing from the region. Product responsibility includes providing education and accurate information, the use of fair, transparent and helpful marketing information and contractual processes and the promotion of sustainable consumption. Consumer protection goes further. It involves minimising risks from the use of products and services and includes design, manufacture, distribution, information provision, support services and recall procedures.

The large number of recent scandals over consumer products indicates the increased attention paid to corporate behaviour. Governments may be slow to act but consumers across Asia are increasingly willing and able to organise themselves and take action. As civil society matures in Asia, boycotts of products and of brands are set to increase with increased sophistication of consumers and a lack of trust in the power of regulators to protect them.

## CSR AROUND ASIA: SNAPSHOTS OF INITIATIVES

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### Australia

The Australian Securities Exchange (ASX) is a clear leader in the region when it comes to promoting CSR. ASX requires listed companies to disclose the extent to which they have followed the exchange's "Principles of Good Corporate Governance Practice and Best Practice Recommendations" and, if a Recommendation has not been followed, lists the reasons for not following the Recommendation. The revision to ASX's Corporate Governance Principles and Recommendations, published in 2007, includes the recommendation that "companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies" and notably, that "these risks may include but are not limited to: operational, environmental, sustainability, compliance, strategic, ethical conduct, reputation or brand, technological, product or service quality, human capital, financial reporting and market-related risks". The Revised Principles also emphasise the importance of involving internal and external stakeholders in the development of risk management policies, including the broader community in which the companies operate.<sup>52</sup>

There is increased regulation in terms of certain practices that relate to CSR such as the amendment of legislation relating to corporate governance and to better protect outworkers. In June 2006 the Parliamentary Joint Committee on Corporations and Financial Services tabled a report<sup>53</sup> in parliament which recommended the wide adoption of corporate responsibility but from the standpoint of continuing support of 'voluntary engagement'.

### China

Facing mounting environmental problems and growing economic disparity, China's government increasingly aims to encourage sustainable business practices. While concerns about corporate governance, safety issues and environmental degradation (and its impact on health) are rising there is still a gap between policy and practice. Extensive labour and environment related laws and regulations are in place, product safety regulations are intended to be updated, incentives for greener business practices are planned. But, with complex and competing priorities at a local level, implementation is an on-going challenge. The importance of CSR is further underscored by

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the stock exchanges in Shanghai and Shenzhen which are requiring listed companies to be socially responsible and to disclose their significant CSR practices and their impacts.

Various tools have been developed to help guide companies including “Guidelines on Fulfilling Social Responsibility by Central Enterprises,”<sup>24</sup> and “Guidelines on Corporate Social Responsibility Compliance for Foreign Invested Enterprises”<sup>25</sup> in addition to provincial frameworks and guidelines. There are a growing number of intermediary organisations providing support to companies, but the presence of civil society organisations is still rather low.

## Hong Kong

CSR has become an important point of discussion in Hong Kong over the last few years – a discussion brought forward by good practice examples of Hong Kong-based companies as well as the civil society.

One organisation pushing forward the CSR agenda is Oxfam Hong Kong. The CSR Asia Oxfam Corporate Social Responsibility Survey of Hang Seng Index Constituent Companies has been influential in providing consolidated public information about the CSR activities of locally listed companies and driving peer pressure. Notable also is Oxfam Hong Kong’s CSR guidebook for Hong Kong garment companies, which was published in 2009.<sup>26</sup>

The Hong Kong government and Hong Kong Stock Exchange have yet to put pressure on listed companies to make improvements in their CSR disclosure. Some first steps are being made with the government seeking public consultation on the rewrite of the Companies Ordinance for improved corporate governance regulation and Hang Seng Index planning to launch an index series with the theme of sustainability, covering Hong Kong and mainland China listed companies.

## India

The Companies Bill 2009 addresses some key issues of corporate governance such as stakeholder protection with the provision for class action suits that

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allow a group of people with a similar grievance to file a joint petition.<sup>38</sup> In general, however, the Indian government favours a voluntary approach to CSR and encourages companies to adopt best practices by providing a set of voluntary guidelines including the “Corporate Governance Voluntary Guidelines 2009”<sup>39</sup> and the “Corporate Social Responsibility Voluntary Guidelines”<sup>40</sup> which incorporate all ten principles of the United Nations Global Compact.

The corporate governance code (2007) mandates public sector companies to disclose environmental and social information in the Director’s Report or the Management Discussion and Analysis section of the annual report. Profit making centrally owned Public Sector Undertakings (PSU) are required to contribute 2% of their net profits towards CSR initiatives.<sup>41</sup> The Confederation of Indian Industry (CII) has established the CII-ITC Centre of Excellence for Sustainable Development, as well as a Centre on Sustainability Reporting that assists companies on their environmental and social reporting.<sup>42</sup>

## Indonesia

In 2007 Indonesia became the first country mandating CSR by announcing Article 74 of the revised Limited Liability Company Law (Law No.40/2007) which focuses on extractive industries. The controversial article initially required companies to allocate 5% of profits to CSR. Two years after the announcement corporations and the government have yet to agree on the details.<sup>30</sup> Many businesses have accused the government of introducing a social tax and Chambers of Commerce are campaigning against the law as they feel there are rules already in place to regulate corporate responsibilities.

The Indonesian Biodiversity Foundation KEHATI offers a mutual fund investment concept, called the Green Fund, to leverage financial support from the business community for ecologically and financially sustainable conservation programmes. In 2009, together with the Indonesian Stock Exchange IDX it launched the First South East Asian Country SRI Index to track the performance of Indonesian Corporate Champions in socially and environmentally sustainable business.

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The Indonesian Institute of Accountants – Management Accountants Compartment (IAIKAM) gives awards for sustainability reports while the National Center for Sustainability Reporting (NCSR) and the Forum for Corporate Governance in Indonesia (FCGI) support companies on sustainability reporting.<sup>31</sup>

## Japan

In response to a series of corporate scandals a shift can be observed in Japan from a strong focus on environmental management to an emphasis on legal compliance and corporate ethics. In 2002 the Japan Business Federation revised its Charter of Corporate Behaviour, partly in order to regain public trust in the wake of numerous scandals caused by some of its member companies. The Federation included a renewed emphasis on the role of corporate management in prevention and in implementing reforms.<sup>51</sup>

There has been little doubt, however, that Japanese companies have been leaders in the region (and indeed globally) on environmental issues. Resource efficiency in an economy with few resources, a strong technology focus and a demanding local green consumer base have all been factors in creating significant environmental advances amongst corporate leaders.

## Korea

Business in Korea and Japan share many similarities when it comes to CSR reporting. Korean and Japanese businesses show increased interest in global CSR dialogue and are “looking to reconcile their national business cultures with the governance, transparency and stakeholder-engagement models their global peers and competitors employ”.<sup>48</sup> They also appear to be most established in responsible investment in the region.<sup>49</sup>

There have recently been a number of initiatives to align Korean business practices with those of the UN Global Compact. The UN Global Compact Networks in China, South Korea and Japan jointly held a first roundtable conference in Seoul. The aim was to advance the UN Global Compact and CSR in the Northeast Asia region and to strengthen collaboration among the three countries.<sup>50</sup>

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## Malaysia

Bursa Malaysia is leading the way among stock exchanges in the region. To promote CSR within listed companies, Bursa Malaysia launched its own CSR framework and has further tightened listing requirements in order to raise standards of corporate governance.

Since 2002 the Malaysian Association of Chartered Certified Accountants (ACCA) has a sustainability reporting award ACCA MaSRA (ACCA Malaysia Sustainability Reporting Awards). In 2009 ACCA MaSRA saw an increase in the quality of sustainability reporting as more and more companies submitted stand alone reports and complied with global standards.<sup>27</sup>

In terms of networks, the Global Compact Network and the non-profit ICR Malaysia are advancing responsible business practices. The Malaysia Accounting Standard Board (MASB) has a provision which encourages environmental reporting if it helps users in making economic decisions.<sup>28</sup>

Tenaganita is an NGO in Malaysia. With the social enterprise Wild Asia, they have supported Sime Darby Plantation (a palm oil producer) in developing a gender policy.<sup>29</sup>

## Pakistan

There is a low understanding of CSR in Pakistan. The Islamabad-based Pakistan Centre for Philanthropy states “Forty percent of companies in Pakistan think CSR means paying taxes, 30% believe CSR is contributing to community welfare or donating to organisations for social development purposes, 15% think CSR equates employee welfare, and 10% think CSR means working in areas where the company’s interests lie. Only 5% understand CSR means directly implementing social development activities and projects.”<sup>43</sup>

While CSR is slowly evolving in Pakistan, it is still largely focused on philanthropic giving with 60 per cent of Public Listed Companies (PLCs) making some sort of contributions to charitable or social development initiatives.<sup>44</sup>

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## Philippines

Corporate philanthropy is deeply entrenched in the culture of the Philippines and there is a great deal of misunderstanding relating to what CSR actually is. Many companies see CSR as the activities of their Foundations rather than embedding CSR into their own practices.

The Philippines Securities and Exchange Commission (PSEC) requires public companies to make a statement regarding their compliance with environmental laws and regulations in their reporting and the Philippines Board of Investment has a CSR policy which is mandatory for companies registered under the 2007 Investment Priorities Plan.

Business associations such as the Makati Business Club, Philippines Business for Social Progress (PBSP) and the Management Association of the Philippines are highly influential in promoting the acceptance and development of corporate citizenship. After a number of media-targeted CSR education campaigns, the Philippines media is becoming more active in promoting corporate citizenship.<sup>36</sup>

## Singapore

Although the government has not set up a legislative CSR framework, it has promoted good CSR practices by publicly endorsing CSR efforts, supporting volunteering and corporate partnership, placing high importance on environment and anti-pollution standards and regulation towards good corporate governance practices. Most importantly, the National Tripartite Initiative (NTI) on CSR was launched in May 2004 which functions as a national CSR steering committee to formulate a coordinated strategy. The NTI brings together representative members from various national bodies, including among others the National Volunteers and Philanthropy Centre (NVPC), Consumers Association of Singapore (CASE), and Singapore National Cooperative Federation (SNCF).<sup>33</sup>

Numerous initiatives have been launched to advance the CSR agenda, including the setting up of the Singapore Compact for Corporate Social Responsibility (a multi-stakeholder platform to promote collaboration).

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However, there is still little mainstreaming of CSR and therefore it is no surprise that a survey by the Ministry of Trade and Industry (MTI) in 2008 found that only 40% of the respondents<sup>34</sup> were aware of CSR.<sup>35</sup>

## Thailand

The Stock Exchange of Thailand is far behind its counterparts in Malaysia and China. Its corporate governance code, to which all listed companies must adhere to, only goes as far as stipulating the board of directors of each listed company to disclose clear policies on environmental and social issues.

The World Resources Institute suggests that the lack of initiatives that promote environmental and social public disclosure may stem from the fact that “Thailand has been focused on building capacity in corporate governance over the past decade since the country’s financial crisis, which has perhaps taken some attention away from the need to build capacity in other types of non-financial reporting”.<sup>37</sup>

## Vietnam

The Vietnam Business Links Initiative, a multi-stakeholder initiative which developed a locally relevant code of conduct for the footwear sector in the late 1990s, operates CSR Awards for the footwear, garment and textile industries, and recently also for marine products. Numerous other initiatives pushing the CSR agenda exist, including the establishment of a number of CSR projects by the Vietnam Chamber of Commerce and Industry (VCCI) in cooperation with the UNDP.

A more emphatic stance from the government, in terms of public policy related to CSR, is starting to become apparent with indications of increasing legislative activity in the areas of labour law, corporate governance and environmental protection.<sup>32</sup>

## DO INTERNATIONAL INITIATIVES WORK IN ASIA?

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The uptake of international standards, indices and other initiatives in the region has been weak to date. Asian companies represent a mere 3.5% (11 out of 317) of the Dow Jones Sustainability World Index.

As of January 2010, there are 7,310 UN Global Compact participants, of which Asian signatories represent 17% with 1,280 participants. Whilst still low, the number of Asian companies signing up to the UN Global Compact is nevertheless growing but companies in the region are constantly making the news for failure to meet the UN Global Compact's mandatory annual communications requirement. Of the 630 companies delisted from the UN Global Compact in 2008, 192 were based in Asia. 92% of companies from the Philippines were delisted, leaving only nine signatories in the whole country.

Many have argued that some companies in Asia that have signed the UN Global Compact are "blue-washing": agreeing to meet the ten principles as a public relations exercise rather than having any intention of abiding by them.

Country	Number of UNGC business participants
China	182
India	144
Republic of Korea	116
Indonesia	109
Japan	99
Singapore	57
Malaysia	51
Australia	40
Vietnam	31
Pakistan	26
Sri Lanka	23
Bangladesh	21
Thailand	18
Nepal	16
Philippines	10
Mongolia	8
Hong Kong	5
New Zealand	5

Table 4: Uptake of UNGC in Asia (as of January 2010)

However, others have argued that Asian companies find it difficult to sign up to an international standard such as the Global Compact because it has quite a Western based frame of reference. Some companies are unable to commit themselves to recognise workers' rights to collective bargaining. Typically this type of organised negotiation has not existed in Asia.

There is also limited evidence that companies committed to respecting human rights as part of their involvement in the UN Global Compact are actually turning voluntary commitments into actions through due diligence processes and human rights assessments. Companies are not showing enough transparency or conducting assessments on human rights and where they are, these are limited in their approach.

Asian companies' participation in the Carbon Disclosure Project (CDP) is also low, but on the increase. Some of Asia's largest listed companies are starting to recognise the reality of what climate change means to their business. The number of companies responding to the CDP2009 Asia (ex Japan) was significantly higher than in 2008 with 127 out of sample size of 500 companies submitting a response.<sup>54</sup> Furthermore, the quality and materiality of responses has continued to improve with an increased disclosure of a wider range of emissions and operational data this year.<sup>55</sup>

An increasing number of companies have also set benchmarks, carbon intensity figures and targets along with the exploration of strategic emissions reduction initiatives. Participants to the CDP were also demonstrating a greater focus on adaptation. The impacts of extreme weather are being recognised in relation to risks and in general companies are establishing a broader picture of how their industries may be affected.<sup>56</sup>

Despite some promising trends (albeit from a small base) in GRI-based reporting, in Asia there is as yet no great enthusiasm for signing up to or using global initiatives. Instead there is more localised regulation from governments or local stock exchanges. Indeed some government or regulatory institutions have actually taken global standards and rewritten them to capture some of the important facets of local culture and laws.

Nevertheless many governments are setting standards for their publicly listed or state owned companies as an initial starting point to get others involved. In China, state owned enterprises are held as examples for the rest of Chinese companies to follow based on their encouragement to report CSR initiatives. In India, the government has set similar requirements for its publicly listed companies.



## BUSINESS OPPORTUNITIES

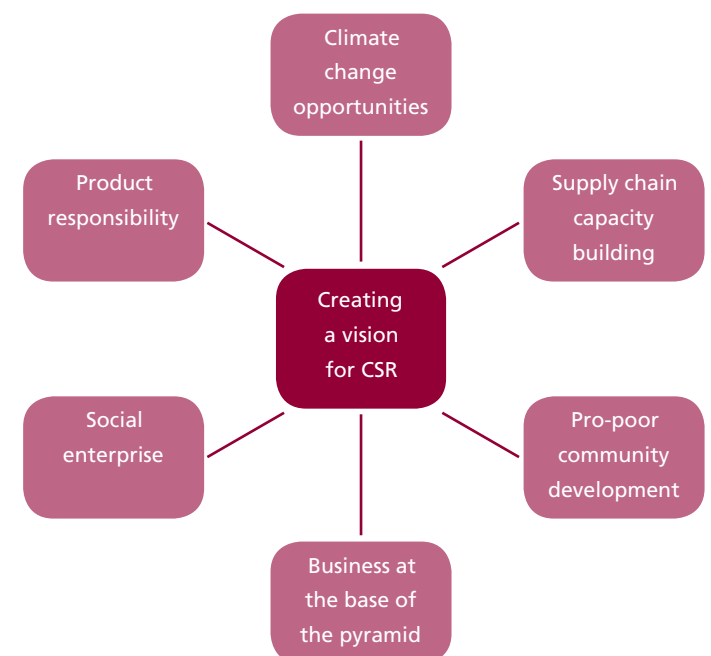
### Creating a vision for CSR

The challenges that exist globally and within the Asian region create great challenges for companies but also provide opportunities for differentiation, brand building and reputation enhancement. Companies that take a long-term view of their businesses are going to be better prepared for the changing environment, rapidly increasing expectations of shareholders and new regulations. Part of the long-term planning process involves creating a vision of where the company wants to go and how it will get there.

Stakeholders increasingly want to see the values that lie behind a company's activities. Part of this reflects the new agenda for accountability and transparency that is emerging in Asia. But having clear corporate values and a vision for the future is also part of demonstrating that a company is aware of its challenges and is thinking hard about how to deal with them.

Any vision for the future needs to encompass the challenges facing Asia that have been outlined above. It should demonstrate how the company will contribute through the sort of CSR initiatives outlined below.

Figure 2: Creating a vision for CSR by focusing on Asian priorities



## CLP's Climate Vision 2050

Over the years, CLP has actively responded to a range of social and investor-related surveys. It is one of the very few companies in Hong Kong to publish a Sustainability Report every year. It has announced its voluntary commitment to combating climate change by releasing a manifesto, CLP's Climate Vision 2050, which includes carbon emissions intensity reduction targets. The Vision sets out the company's 40 year commitments to changing the way it generates electricity in order to help tackle climate change.

CLP has been included in the Global Dow Index and is the only Hong Kong Company that has entered both the Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific) and the Dow Jones Sustainability Asia Pacific 40 Index (DJSI Asia Pacific 40).

*Source: Richard Welford, "CLP makes it on to the Global Dow and DJSI indices," CSR Asia Latest Issues, blog entry posted April 16, 2009, [www.csr-asia.com](http://www.csr-asia.com)*

## Climate change opportunities

Climate change impacts on business through various domains: physical threats, regulatory impacts, competitive opportunities and reputational effects. It has evolved to a strategic business issue. Businesses in Asia are increasingly recognising the threats that face the region with sea levels rising and freak storm events set to increase. But they are also beginning to foresee the implications for their industry and the need to reshape their approaches.

Companies can gain reputational and competitive advantage through mitigation strategies that effectively reduce the carbon intensity of their business operations and tap opportunities by developing solutions that help adapting to climate change. Those companies who seize the potential and future business opportunities will have a greater competitive advantage in

the emerging low-carbon economy and are therefore more desirable for a long-term investment.

Business opportunities for cleaner technologies are growing in the region as indicated by the set-up of the Asia Carbon Group which plans to establish a trading platform, the Asia Carbon Exchange, and also the Asia Carbon Fund for the purposes of investing into sustainable development projects.<sup>57</sup> Another promising development is the establishment of the Asia-Pacific Partnership on Clean Development and Climate. Among the founding partners are the governments of Australia, China, India, Japan, Republic of Korea, and the United States who have agreed to work together and with private sector partners on expanding investment and trade in cleaner energy technologies, goods and services in key market sectors.<sup>58</sup>

## Cathay Pacific's climate change strategy

As a part of the aviation industry, which is perceived as a major global contributor to greenhouse gases, Cathay Pacific is taking climate change as a serious business concern and seeks to move towards a responsible business model that puts low carbon intensity at its core. The company follows the industry's four-pillar approach to reduce GHG emissions by investing in technology, improving operations and infrastructure and through appropriate economic measures. It has laid out the challenges it faces and in 2010 launched its Sustainable Development Strategy with policies to reduce greenhouse gas emissions through the use of new technology and by finding ways of flying in more fuel efficient ways. It has invested in new planes, negotiated the shortening of many of its routes and engaged in improving air traffic management.

*Source: Cathay Pacific (2009) Continuity and Change: Corporate Social Responsibility Report 2008. Cathay Pacific, Hong Kong. And Cathay Pacific (2010) Our next destination: Cathay Pacific Sustainable Development Report 2009. Cathay Pacific, Hong Kong.*

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## Supply chain capacity building

Supplier codes of conduct alone may not be a sufficient approach to ensuring that supply chains are free from labour abuses and human rights violations. It is clear that whilst they have contributed to improving “sweatshop” issues, they have not removed all bad practices. Most brands are now recognising that as well as monitoring their supply chains they will also have to build capacity within them if they are to achieve full compliance with their objectives.

Such capacity-building needs to exist at a number of levels. There is a need to develop management skills in factories where managers have often received very little modern management training. Moreover, there is a need to demonstrate to first tier suppliers that CSR is also good for their business for exactly the same reasons that it is good for the brands.

There is also, however, a need to build awareness amongst workers. Migrant workers with poor education levels are often not aware of the labour laws that are there to protect them. They too often believe managers who can often mislead them about their entitlement to minimum wages, working hours and overtime compensations, health and safety protection, for example. Many brands have gone further in providing workers mechanisms by which they can raise grievances with the brands themselves. There is also a need to ensure that workers are receiving good quality skills training and vocational development.

## Pro-poor community development

Home to two thirds of the world’s poor, we have seen that poverty remains the most pressing issue facing the region. It affects the quality of governance, political stability, economic diversification, and the overall well-being of the economy. Whilst businesses have played an important role in inward investment, creating jobs and adding economic value to the region, there is still much to do to move the people living in poverty into meaningful and sustainable employment.

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As part of a process of poverty alleviation, companies will have to demonstrate that they have positive impacts on the communities where they operate. In the least developed parts of the region businesses can be at the heart of pro-poor community investment projects, micro-finance initiatives and programmes to encourage social entrepreneurship. With the poor being particularly adversely affected by the impacts of climate change, community investment strategies will be win-win if they can involve climate change adaptation and responses to environmental challenges for poor people too. Businesses can contribute to the resilience of the poor by

- ❖ harnessing core corporate competencies and individual value chains to increase climate resilience in developing country enterprises and communities;
- ❖ partnering strategically with civil society – strategic alliances between business, NGOs, research institutes, and community organisations;
- ❖ increasing investments in public-private and hybrid financing mechanisms;
- ❖ creating industry-wide sector initiatives to establish common standards and spread technology and good practices; and
- ❖ engaging in public policy advocacy and dialogue in order to strengthen public governance and institutions that support adaptation.<sup>59</sup>

## Business at the base of the pyramid

Most business strategies target the ‘top tier’ of relatively wealthy consumers who have enough incomes to buy their products. Yet, this leaves a vast untapped market at the ‘base of the pyramid’ where some 2.7 billion people live on less than US\$2 per day. Their collective purchasing power is estimated to be US\$5 trillion.<sup>60</sup> Early leaders such as Unilever and Procter & Gamble have recognised the huge market that exists in developing economies and adjusted their business approach to create sustainable business to benefit the local poor.

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There are nevertheless opportunities to go further and to recognise the poor as creative entrepreneurs and not merely as ‘victims’ or ‘mini-consumers’. By engaging them in business operations through profitable commercial activities (or inclusive businesses) sustainable livelihoods can be created in a way that is also good for economic development. This can be achieved through direct employment from this segment or the targeted development of supply chains in poor rural areas. It is about developing sustainable business models that can stimulate employment, entrepreneurship and new small businesses.

## Social enterprise and social entrepreneurship

The Asia-Pacific region is a hotbed of entrepreneurialism. In Hong Kong the government has talked up the role of social enterprises as a valuable component of the economy. In Singapore the government released a consultation paper on social entrepreneurship in 2007 that concluded “it is critical that Singapore develops a pro-social enterprise environment with business and financing support for social enterprises from start-up, to growth and expansion stages. In China, Thailand, Taiwan, and India there are similar levels of interest from various sectors that are seeing the development of social enterprises and the development of social entrepreneurship skills as a key part of any poverty alleviation strategy.

But the concept of social enterprise is not well understood. A social enterprise is a business capable of long-term survival in a competitive marketplace but which has social objectives as well as the more traditional economic ones. It is not a business that can only exist through receiving grants and donations. A successful social business is sustainable because it can survive on its own. Social enterprises are about developing new forms of value but they must be economically viable.

Big business has much to gain from partnering with, investing in and sourcing from social enterprises. Partnering with social entrepreneurs offers traditional firms new ways to bolster their bottom lines while also meeting their CSR goals. In Asia we can see that small social enterprises are developing interesting markets of the future, trying out new business models and developing new viable market places. They bring about social

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innovation by creating affordable products for underserved markets. A thriving social business sector provides interesting socially responsible investment opportunities. Social enterprises can also be a training ground for leadership, as working with social businesses has massive benefits for staff motivation, corporate image and creative thinking.

## Product responsibility

A new emphasis on product responsibility can bring both brand and reputational advantage and help to respond to mounting concerns over product responsibility and new emerging laws. Thailand’s new legal framework for product responsibility, for example, focuses on the manufacture, import and sale of goods that cause or may cause injury. All manufacturers, importers and sellers will be jointly liable to the injured party, irrespective of whether or not the injury occurs from deliberate action or actions amounting to negligence. The injured party need not prove negligence but only that any injury occurred through normal usage or storage of the goods.<sup>61</sup>

But there has also been a recent focus on providing products that can enhance the lives of people with particular needs. For example, Grameen Danone Foods built a factory in Bangladesh producing Shokti+, a fortified yogurt to help curb malnutrition among Bangladeshi children.

As part of that product responsibility, the business model is built on local supply. Grameen micro-borrowers buy cows to sell its milk on the front end and small-proximity stores or Grameen micro-entrepreneurs sell the yogurt door to door. Environmental concerns have also been taken into account - biodegradable cups made from cornstarch, solar panels and rainwater harvesting all contribute to minimising the use of natural resources.<sup>62</sup>

## WHAT SHOULD BUSINESS DO?

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### Understanding the context of Asia

Many companies have made mistakes when entering the Asian market because they have brought with them Western values systems that are out of line with norms and cultures in Asia. Companies need to analyse the countries or locations where business is undertaken and thoroughly review the industry in the region. The large Asian companies that often dominate countries or industries can be formidable competitors and a thorough understanding of the nature of their conglomerate networks and inter-linkages is important.

Perhaps more than anywhere else in the world, government is strong in Asia. While this does not mean that it is necessarily effective, government has to be factored into business decisions and CSR programmes. NGOs tend to be less confrontational and so companies often do not feel the same pressures as elsewhere. But they often make excellent partners for CSR initiatives.

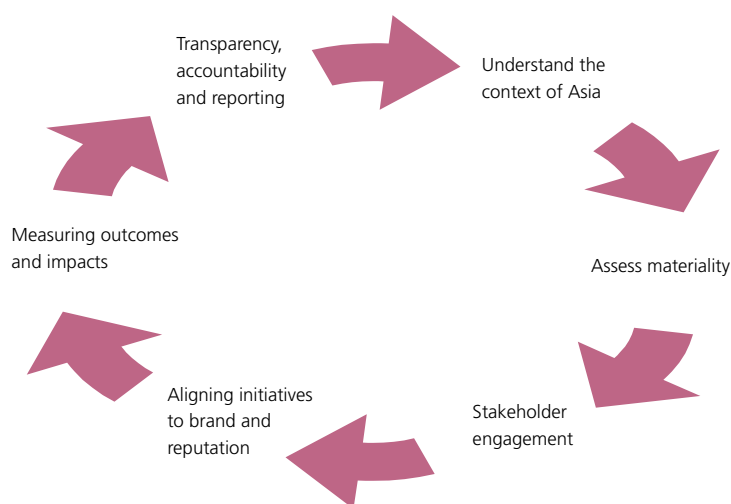
The key is to understand what is going on through benchmarking, market research and stakeholder engagement. There are a growing number of consultancies based in the region that do understand the local context and they can be a valuable source of information and advice.

### Assessing materiality

A materiality assessment can help companies assess risks and opportunities in the region and guide appropriate CSR initiatives. There is a need to consider which issues outlined in this report are most relevant and important to business operations and to the development of a long term vision to enhance brand and reputation. There is also a need to consider which issues will impact on stakeholders which can lead to emerging risks.

There needs to be focus on reducing negative impacts and impacts that can damage a company. This means acting on high impact areas, whatever they might be. But there is also a need to enhance the positive impacts that businesses can bring to economies, communities and the environment. By so doing businesses can contribute to sustainable development.

Figure 3: Taking a strategic approach to CSR



## Stakeholder engagement

The way to understand social responsibility in the context of Asia is to engage stakeholders at the local and industry level. Their views and concerns will often be very different from those found in the West. Engagement may be difficult in places where public consultation is not common. In countries with no history of democracy, where public opinion is suppressed and where people are discouraged from active protest, people are often not used to having their opinions heard. Therefore, it is very important to explain the nature of stakeholder engagement and why their opinions are valuable.

Ongoing structured stakeholder engagement provides a business with invaluable information about emerging issues and concerns to which a company needs to respond. With stakeholder expectations in the region changing rapidly and often in an unpredictable way, engagement is key. Continuous stakeholder engagement can help to build trust and credibility amongst stakeholders after enhancing a company's reputation and brand. Perhaps more importantly in Asia, however, stakeholder engagement is an effective means of risk management. There is a need to use this engagement to track issues and check what is being said about a company.

## Aligning initiatives to brand and reputation

The business case for CSR has always revolved around the development of brands, reputation and trust. But, branding is now not only about products, services, quality, innovations and design. It also includes a new emphasis on the responsible behaviour of companies and their contribution to sustainable development. The success of CSR activities should be measured against their impact on overall brand reputation.

## Measure outcomes and impacts

CSR needs to be measurable, with data to be collected, targets to be set and impacts to be verified. Examples of measurements are various and include greenhouse gas emissions, gender and racial diversity within senior management, fewer customer complaints, reduction in accidents in the workplace, reduced fertilizer and pesticide use, improvements in energy efficiency, supply chain compliance and reduction in pollutants.

But the ultimate measure of outcomes and impacts should be through demonstrating a contribution to sustainable development in the region. This means measuring and assessing (positive and negative) impact on communities and ensuring that where poverty exists, the business should seek to ensure that local benefits to communities are maximised through local employment and the creating of business opportunities.

## Transparency, accountability and reporting

Multiple and increasingly vocal stakeholders, customers looking for added value, the Internet revolution and the fast pace of ICT development have brought about a new transparency imperative. Engaging with stakeholders is an essential part of responsible business practice and provides the necessary insights into issues of most concern. Good communications are important to the company but they also help businesses to shape the context of CSR in Asia and contribute to sustainable development.

## PROSPECTS FOR THE FUTURE

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There is little doubt that recent economic turmoil has had a significant impact on CSR. There is a new emphasis on corporate governance across the world and this is also reflected in Asia. Many stakeholders want to see a re-evaluation of the way that business is conducted, making sure that the benefits of economic success are fairly distributed. Transparency, accountability and disclosure have perhaps never been so important in building trust in a brand.

Stakeholders also remain hugely concerned about the other challenges facing businesses in Asia. These include the impacts of climate change, risks associated with outsourced supply chains, poverty, community impacts, human rights and product responsibility. Stakeholders expect companies to respond by building new partnerships, finding innovative solutions to many of the global problems facing us and being an active player in promoting equity and justice. They expect the private sector to be part of a process of rebuilding a secure global economy that can contribute to sustainable development.

The future will see stakeholders becoming more sophisticated in the region and expecting more from business. They will use the new social media to discuss the activities of large companies and brands will have to be increasingly aware of the new emerging issues that are likely to emerge from such stakeholders. In particular, a new emerging consumer class is both more educated and more aware and will expect value from their purchases reflected not only in how much they can get for their money. We can expect a new wave of protests and boycotts if consumers do not get what they want.

A new wave of Asian multinationals is also set to upset the existing international economic order. And by all accounts many of those new players are recognising that CSR practices are part of their licence to operate on the competitive international playing field. One should not assume that the emerging brands cannot be every bit as good at CSR as their Western counterparts, if they need to be.

For companies operating and investing in Asia, they will have to be aware of the Asian issues that can affect their business. Replicating Western forms of CSR and introducing them into Asia may meet with limited success.

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CSR will have to be tailor-made to the needs of the region and the aspirations of stakeholders. CSR will have to be aligned with Asian challenges if they are to provide opportunities for business.

Above all, sophisticated stakeholder demands, the new media and a renewed interest in CSR by government and stock exchanges will require increased levels of transparency and accountability. Investors and other parts of the financial community are worried about companies' exposure to ESG risks in Asia. Maintaining credibility and trust will require companies to look deeper into their own operations and impacts.

For businesses committed to CSR, now is the time to put a new focus on activities in Asia. That requires leadership from companies operating in the region. It requires new engagements with stakeholders that are different to those found in the West and who have different concerns and aspirations. It will require new partnerships from business to play a part in developing sustainable development in the region.



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“ *It is not good enough to do what the law says. We need to be in the forefront of these [social responsibility] issues.* ”

*Anders Dahlvig, CEO of IKEA*

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