

# Corporate Social Responsibility in Asia

By Aron Cramer and Jeremy Prepscius

## Creating a Sustainable Future

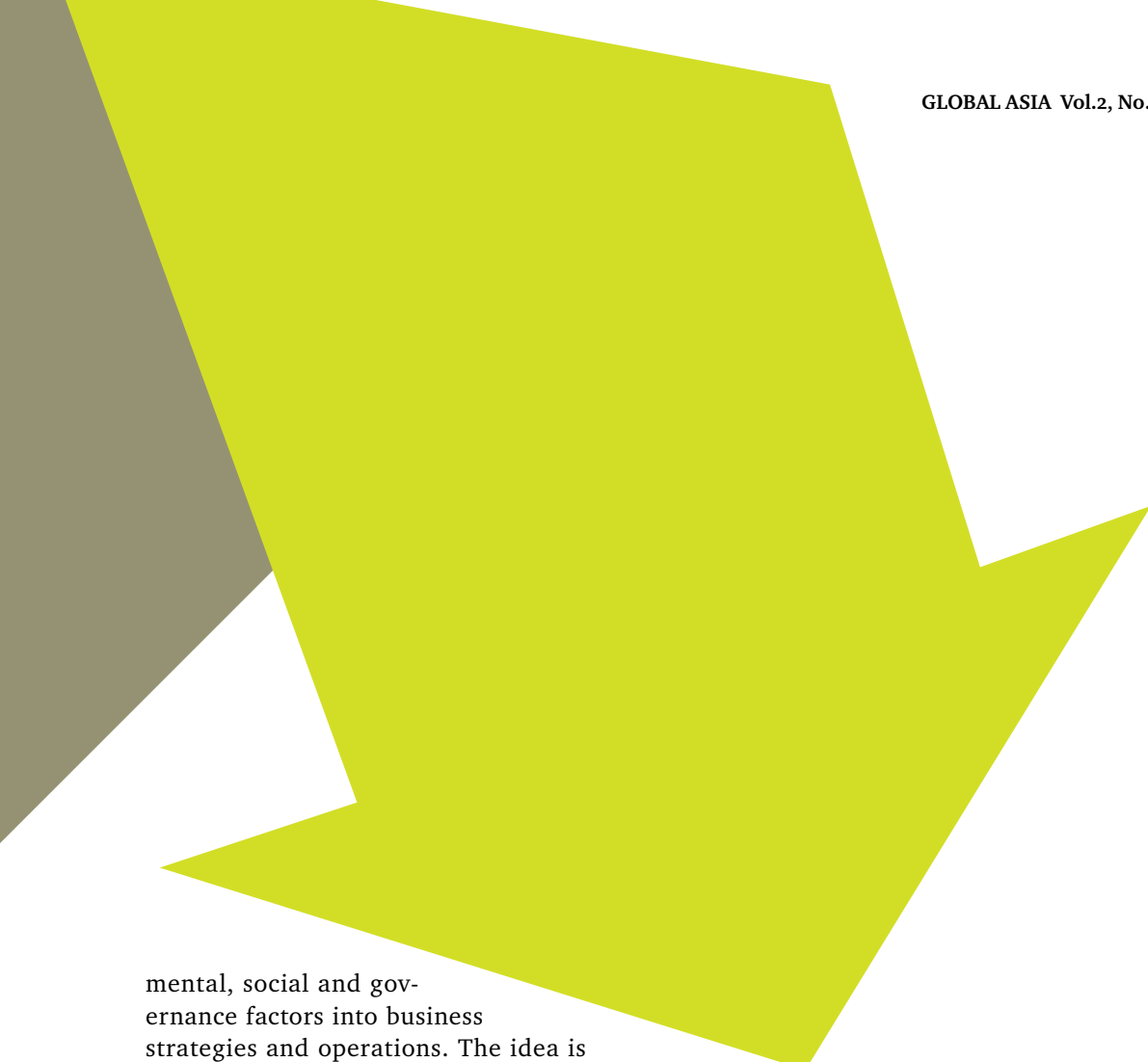
**Corporate social responsibility used to be seen as a Western concept. That's no longer true, argue consultants Aron Cramer and Jeremy Prepscius.**

**Asian business leaders are turning their attention to adapting the concept to give it Asian characteristics. This could have wide-ranging implications both within and outside the region.**

SUSTAINABILITY IS AT THE top of the world's agenda in 2007. For businesses, governments, and the public at large, topics such as energy and climate change, product safety, global labor standards and access to clean water have taken on a new urgency.

For Asia, this means that corporate social responsibility (CSR) can no longer be seen as a topic that is confined to North America and Europe. Indeed, we cannot build a sustainable world without a sustainable Asia. For the first time since the rise of the modern movement toward corporate social responsibility in the early 1990s, we see multiple signs that Asian businesses are bringing to bear their considerable energy and thought to shaping Asian approaches to the concept.

What is corporate social responsibility? The term is widely heard, but still poorly understood. It refers to the integration of environ-



mental, social and governance factors into business strategies and operations. The idea is best understood as a framework for business to contribute to the construction of a truly sustainable economy, delivering value both for shareholders and the broader public. But CSR is *not* philanthropy — fundamentally, it is not how a company *spends* its money that counts, but rather how it *earns* the money in the first place.

#### CSR WITH ASIAN CHARACTERISTICS

While sustainability is essentially a global concept, CSR has developed differently in different parts of the world. This is not surprising, because to be effective CSR needs to flow naturally from the social contracts that define the relationship between business and society. These social contracts, moreover, derive from distinct cultural, economic, and governance models. The rise of a homegrown version of CSR across Asia is therefore developing with both similarities and differences to that practiced in the rest of the world.

There are unique Asian realities that appear to be critical in shaping regional approaches to a sustainable and responsible business model, particularly in comparison to the US and

Europe. These distinct features shape the way CSR is defined in Asia, and also impact on how “Made-in-Asia CSR” will influence global perspectives on sustainability.

Asia is more diverse — culturally, linguistically, and economically — than other regions of the world. First, as addressed below, it is a mistake to refer to one version of Asian CSR because it is defined differently across the region. Second, this means that Asia, taken as a whole, is a fascinating laboratory in which various approaches and models can be tested.

Of course Asia is also experiencing the most rapid economic growth of any of the world’s regions. The promise and reality of rising living standards remains foremost in the minds of policymakers and businesses. This contrasts sharply with Western perspectives, which are focused more on maintaining high living standards.

Asia, more so than other regions, includes a dynamic mix of developed and developing economies. Coupled with the rise of “South-South” trade, this positions Asia to influence other regions of the world on a range of is-

sues, because it may have more credibility than Europe or the US.

Asia's rising economic power coincides with rising political power. China, India and Russia are poised to assert ever more influence in the coming decades, meaning that Asian perspectives on CSR may also have more influence on global definitions of the concept.

Finally, Asian businesses and policymakers are substantially less inclined than Western companies to rely on established international principles and standards on social and environmental questions. Some of this results from a sense that these standards are in fact not universal, but rather developed primarily by — and for — Western interests. Some of this reluctance also results from the desire to prioritize economic growth over other factors. This also reflects cultural affinities for consensus building, as opposed to the more legalistic approaches favored in the West.

#### ASIAN MODELS OF CORPORATE BEHAVIOR

CSR, as it relates to Asia, has been shaped along several different models, each with its own priorities and mindsets.

The first to emerge with the distinct label of corporate social responsibility came via Western multinational companies operating in the region. Beginning in the early 1990s, American and then European companies began to apply a set of principles to the operations of their suppliers and business partners. The rise of codes of conduct, focusing both on labor and environmental practices, can in retrospect be seen as an early effort to develop “soft law” principles for the globalizing economy. These efforts, while often well-intentioned, have in many cases reflected Western perceptions (and misperceptions) about Asia as much as they have reflected Asian reality.

This more visible and controversial Western-oriented model has masked the development of three different categories more firmly tethered to Asian thinking. The first, which has received the least attention outside the region, has to do with the practices of companies doing business inside their own countries. This topic is too diverse to be

treated here, but suffice to say that it takes a wide number of forms at the intersection of local conditions, community expectations and, at times, the inclinations of powerful business leaders who may be looking to establish — and demonstrate — a legacy of community benefit. More interesting are the examples of companies who create new business models for “blended” benefit, such as ICICI Bank in India, which is aiming to bring new financing models to impoverished communities desperately in need of banking services.

While the question of how Asian and Western companies apply CSR in Asia is of great significance, Asia's stamp on CSR may ultimately be defined according to how Asian multinational companies shape their actions outside the region. This question plays out differently in developing and developed economies.

There is a growing debate underway about the role of new multinational companies who are actively engaged in emerging markets. The poster children for this model are Chinese companies operating in Africa. These companies are at once similar to and different from the Western companies who came before them.

Taking their cue from Chinese foreign policy, Chinese companies in Africa assume a principle of non-interference in local sovereignty. The attitude arises both from a different attitude toward influencing local conditions, and also from the legacy of foreign interference in China's own affairs in the past. The clash of values that can be occasioned by this was on display at the recent World Economic Forum meeting in Dalian, China, where *New York Times* columnist Tom Friedman and UN Undersecretary-General Sha Zukang of China traded barbs in a debate over whether and how Chinese and other companies can — or should — intervene to stop the killings in the Darfur region of Sudan.

This hands-off approach, however, sometimes bumps up against messy local realities. Contractors for Chinese oil companies in Nigeria's strife-torn Niger River Delta, for example, have faced the same security threats that are commonplace for companies like Shell and Chevron, who have operated in Nigeria for decades. It may

be that the exigencies of safety and security push Asian oil companies to join heretofore Western-based efforts such as the “Voluntary Principles on Security and Human Rights” as a means of securing the stability of their operations.

Finally, there are the increasing number of Asian companies operating in the United States and Europe. This may be the crucible for harmonizing Asian and Western views on social responsibility. As Chinese, Indian and other Asian companies become more significant players in Western markets, they are likely to experience some of the same backlash Japanese companies encountered in the 1970s and 1980s. This will no doubt result in increased consumer pressure on such companies to demonstrate that they are good corporate citizens. Asian companies could see an advantage in shaping approaches that resonate with consumers who have different priorities than those in their home markets. Called upon to consider issues like human rights, transparency and governance in ways

that may be unfamiliar, their response holds the potential to define “Brand China” or “Brand India” in the vast US and EU markets.

#### EMERGENCE OF DIFFERENT MODELS

It is no more possible to define a single model of “Asian CSR” than it is to define a single Asian language: the region’s diversity of corporate practice rivals that of its natural environments.

In India, philanthropy continues to loom large in the CSR landscape. At the same time, civil society also plays a significant role in India, suggesting that a “stakeholder” model, such as that in the West, might arise. Any such model, and indeed the overall approach to CSR in India, will also be defined by the tension between the country’s energetic commercial development and cultural and spiritual values that sometimes run counter to a focus on simple material progress.

China’s rise, as noted above, sparked Western interest in CSR in Asia, though


**Asia’s stamp on CSR may ultimately be defined according to how its growing stable of multinational companies shapes their actions outside the region.**



**+14%**

is the rate at which well-governed companies outperform their markets

Source: McKinsey and Company's "Global Investor Opinion Survey" (2002)



**80%**

of institutional investors surveyed would pay a premium on the stock market for well-governed companies

Source: McKinsey and Company's "Global Investor Opinion Survey" (2002)



**11% to 40%**

is the range of the premium that institutional investors would pay for well-governed companies

Source: McKinsey and Company's "Global Investor Opinion Survey" (2002)

## Good Corporate Governance is Good Business

The value of social corporate responsibility goes beyond doing the right thing. It's also good for business. Numerous studies and surveys have documented the connection between SCR and better returns for companies and investors.

## India is one nation where civil society plays a significant role, suggesting that a ‘stakeholder’ model that has developed in the West might arise.

largely as a means of understanding China’s impact in the West. In just the past two years, Hu Jintao’s drive for a “harmonious society” has focused increased government attention on the nation’s mounting environmental worries, as well as growing economic disparity. Concerns about corporate governance, safety issues and frenzied stock speculation are bubbling under the surface, raising the possibility that pressure on the role of business in Chinese society could greatly increase.

In northeast Asia, while Japan and Korea have experienced historical conflict, they share relative prosperity, as well as concerns about the economic and political impact of their Chinese neighbor. This is driving similar evolutions in their thinking about CSR, with Japanese and Korean multinationals showing increased interest in global CSR dialogue. For example, companies based in these countries have become more actively engaged in looking at supply chain practices. Companies in both countries are also looking to reconcile their national business cultures with the governance, transparency and stakeholder-engagement models their global peers and competitors employ.

Also, with Ban Ki-Moon as Secretary-General of the UN, there is surely a greater imperative to align Korean business practices with those of the UN Global Compact. And Japanese business also would seem to be well-positioned to apply environmental prowess to an era of resource limitations.

Across Southeast Asia, smaller economies from Vietnam to Cambodia to Indonesia focus mainly on economic development and their role as suppliers to global manufacturers. Apart from Indonesia’s recent — and in the eyes of

many, misguided — effort to legislate CSR, these nations are not yet shaping distinct approaches to CSR.

Finally, the trading hubs of Hong Kong and Singapore have increasingly active CSR communities. These two cities might well become to Asia what London has become in Europe: regional centers of debate and innovation that can inform and invigorate practices around the region.

### SHAPING 21ST CENTURY MARKETS AND SOCIETIES

What happens in Asia matters. This is not only because so much of the world’s economic energy comes from the region, but also because the global challenges that CSR is designed to address are more vividly on display in Asia than elsewhere. Any look at global mega-trends will find countless examples happening — today — from Tokyo to Karachi. Asia leads in the number of mega-cities, which bring both economic opportunity and environmental nightmares. Asia is also home to both demographic “youthquakes,” such as in Vietnam, and fast-aging populations like those in China, Japan and South Korea. Asia has massive migration both within and across national borders. Many Asian societies, such as Korea, are champion early adopters of information technology. Asia is experiencing rapidly changing social contracts, with questions about governance gaps and power shifts found across the region.

The way Asia meets these challenges has the potential to establish the region as the world’s CSR innovation laboratory. If Asia finds a way to leverage business solutions to its homegrown sustainability challenges, the region will be better off, and the world will take notice.

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To make this happen, it will be critical that Asian businesses learn from those in the West whose approach to corporate social responsibility has evolved over time.

Western businesses have gone through four distinct periods in their thinking about CSR. First, in the mid-1990s, companies' actions were characterized by *reaction*. In this phase, businesses responded, often with defensiveness, as new issues landed on their agendas. In the next phase, companies began to look to *innovation*, focusing on the creation of best practices. All too often, however, such efforts developed only as demonstration projects that could not be scaled up.

A third phase, begun earlier this decade, saw a welcome focus on *integration*. With this approach, companies began to integrate social and environmental questions into their core activities. More recently, businesses have begun to look at how CSR can generate *value creation*. This means the development of new markets, products and services that create top-line benefit, and build sustainability into the business, rather than just as a coat of “sustainability varnish” layered on top of an existing business model.

The focus on integration and value creation holds the greatest promise for Asian business and the region as a whole. The opportunity is present to find business solutions to a range of problems, from migration and transport to water and energy needs, and to generate economic opportunity for a still-huge Asian underclass.

These are Asia's challenges, but they are also the world's challenges. Meeting these challenges presents a significant chance to shape — and capture — the markets of the future. The way forward can enhance not only the ongoing competitiveness of the region, but also the stability that is needed to sustain a positive investment climate amid very rapid economic — and geopolitical — change.

#### ALTERNATIVE SCENARIOS

In thinking about where Asia fits within the fast-developing global debate about sustainability, it is possible to discern three distinct scenarios. Whichever of these scenarios — or more likely, which hybrid — comes to pass, will play a very significant role in setting the “soft laws” that govern the global marketplace, and shape our shared economic, social, and environmental future.

**Asia's steady rise:** In this view, Asian businesses and governments will engage one another as full and equal partners, with welcoming arms from the West. There are signs that this scenario is taking hold, with increased Asian participation, for example, in the development of the ISO26000 guidance on social responsibility, which is expected in 2009, as well as increased Asian participation in global CSR platforms such as the Global Reporting Initiative (GRI). Indeed, at this past summer's UN Global Compact Leaders Summit, there were more Chinese in attendance than there were participants from Japan and the US, the two largest economies in the world.

**Backlash:** Alternatively, it is possible to foresee trade, political and military tensions creating “CSR blocs” that seek to use CSR for tactical advantage. It is certainly possible to imagine rising protectionist sentiment in the West, which could be used to restrict market access for new global champions from Asia, sparking a similar reaction to Western companies operating in the region. In this dismal scenario, trade diminishes, with CSR as a flashpoint. Even worse, the CSR agenda would be subverted from an engine of sustainable development to one that

results in unsustainable models that promote resource depletion and conflict.

**Crisis (Opportunity or Conflict?):** Rapidly deteriorating environmental conditions could present a fundamental challenge to business as usual, including Asian economic growth. Business and governments will face clear choices. It is possible that this would accelerate the development through global dialogue of shared solutions to manage resource scarcity, promote investment in new products and services, and avoid conflict. Crisis could lead to a grand bargain on climate, water, migration and corporate governance. But it is equally possible that the outcome would not be positive. For example, Asian and American governments could promote ongoing growth, with Europeans developing alternative approaches, or rich countries sacrificing some growth while the largest emerging economies defer effective resource management in favor of economic growth in the short and medium term. Conflict would arise, and environmental problems would grow worse.

As in all cases, we have choices. Leadership on sustainability is available to be grasped, with the most favorable outcomes still possible.

Businesses and governments that focus on creating both economic and social value, will shape the contours of the global economy at mid-century. This leadership can come from Asia in a way that will allow Asian businesses to build regional prosperity and stability; demonstrate a leading global role and, most importantly, shine the path towards a truly sustainable economy.

**Aron Cramer is President and CEO, and Jeremy Prepisci is the Asia Director of Business for Social Responsibility (BSR). Pravir Malik, Managing Director of Advisory Services for BSR, provided input for this article. BSR provides consulting services to a network of 250 global companies to integrate social and environmental considerations into business strategies and operations.**