4-2013

Contextualising CSR in Asia: Corporate Social Responsibility in Asian economies

Bindu Sharma

ABOUT THIS PUBLICATION

This publication seeks to present a narrative about the practice of CSR in ten Asian economies – China, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand. The aim is to present a uniquely Asian perspective on the CSR story in these countries that will inform CSR practitioners, researchers and interested corporate stakeholders.

Drawing on historical and traditional notions of business responsibility and engagement, the research looks at modern day drivers of CSR in these countries such as the government, civil society, globalisation and enlightened self-interest. The research also throws light on other underlying influences and looks at frameworks such as ISO 26000 for Social Responsibility.

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The Lien Centre for Social Innovation, a partnership between the Lien Foundation and Singapore Management University, was established in 2006 to advance the thinking and capability of the non-profit sector. Based in Singapore, the Lien Centre seeks to enable global thinking and the dissemination of best practices related to social innovation in Singapore and beyond.

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Contextualising CSR in Asia

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Lien Centre for Social Innovation
Social Insight Research Series

Contextualising CSR in Asia

Corporate social responsibility in Asian economies and the drivers that influence its practice

ABOUT THE LEAD RESEARCHER

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Bindu has consulted for a broad range of international and development organisations, Pact, Inc. USA; the Aga Khan Foundation, USA; Canada's International Development Research Centre; the Foundation for Development Cooperation, Australia and the Lien Centre for Social Innovation, Singapore. Areas of research and consultation included corporate social responsibility and public-private partnerships, regional trends in microfinance; governance and civic accountability of the State; trends in donor priorities in development research in Asia and programme evaluation and assessment.

Earlier in her career, Bindu was based in Washington DC with Pact, Inc. a US-based international development organisation, as the Regional Director for Asia. Prior to working in the development field she worked in the corporate sector in India with Vam Organic Chemicals Ltd, now Jubilant Organosis Ltd.

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A research study commissioned by
the Lien Centre for Social Innovation

April 2013

Published by the Lien Centre for Social Innovation.

Cover design by Make Design

ISSN: 2010-3417
ISBN: 978-981-07-3274-5
Printed and Typeset by Green Prints on
Indonesia Woodfree Paper (ISO14001 certified)

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Preface

It has long been construed that corporate social responsibility, as a series of principles and practices, is hegemonic in nature, imposing a distinctly Western sensibility upon Asian economies, especially those from developing countries. Which leads us to ask the question – is there an indigenous “Asian” form of corporate social responsibility?

While various forms of corporate philanthropy and community investment have been practised by Asian companies, long before it was termed so in the West, can they be said to form a distinctly Asian sensibility towards CSR?

Are there particular cultural and societal norms which have influenced its development in this region? And if so, what does this teach us (and especially corporations) about how CSR can be better practised in the different countries that they operate?

These are some of the questions that we tried to answer through this commissioned piece of research.

The Lien Centre for Social Innovation

Acknowledgements

This study started as a conversation with the board of the Lien Centre for Social Innovation in 2008. I would like to sincerely thank them, especially then-Chairman Willie Cheng, board member and the then-Honorary Centre Director Robert Chew for initiating this research.

From the outset, I was aware that a 10-country study on the Asian context of CSR was an ambitious undertaking and I am grateful for the unstinting support of the Lien Centre. Special mention goes to the team at the Lien Centre – Jacqueline Loh, Jared Tham, Prema Prasad, Sharifah Binte Mohamed and Farheen Mukri - the collegial work place they provided was the most pleasant part of the research project. Others in the SMU family - especially professors Thomas Menkhoff and Eugene Tan - provided valuable input at the design and initial stages.

My sincerest thanks go to Jared Tham, at the Lien Centre. One could not have asked for a more diligent and resourceful Research Assistant. Jared's commendable perseverance in the face of endless web-searches and copy edits was essential to the project and his input and commentary were invaluable as I progressed with my writing.

My journey into the CSR space started with Professor Robert Fleming who kindly allowed me to audit his course at the National University of Singapore Business School in 2008, for that I will be ever grateful.

Around the same time, the opportunity to be part of the Singapore Compact's first publication "Corporate Social Responsibility in Singapore: CSR for Sustainability and Success", a compilation of case-studies on the CSR journey of a select group of Singaporean and Singapore-based MNCs presented itself. For that I would like to thank Thomas Thomas, Executive Director of the Singapore Compact and his then-team comprising Evelyn Wong and Kim Minju.

I benefitted greatly from the many conversations with Singapore Compact and the group that authored the case-studies - Mark Chong, Rajesh Chhabara, Christine Davis, Bob Fleming, Nancy Frohman, Jean-Pierre Dalla Palma and Gilbert Tan. In addition, conversations with Paula Bennett, Erin Lyon, Melissa Ong and others in the small CSR community in Singapore helped shape the research.

Within a few weeks of starting this research, I was offered the position of Asia Pacific Policy Director at the International Centre for Missing and Exploited Children (ICMEC). Sincere thanks to Ambassador Maura Harty, the then-Senior Policy Director at ICMEC and to Willie Cheng and Robert Chew for their foresight in agreeing to my doing both tasks.

Others that merit special thanks are Ann Florini, Professor of Public Policy, at the School of Social Sciences, SMU, for reading endless copies of my manuscript, and R. Admiral O.P. Sharma, my father, who diligently supported my research by keeping track of all media reports and research on CSR coming out of India.

This research project was the starting point in my journey back to the workplace after having spent several years at home with my daughters in their formative years. I would like to thank my two daughters Gayatri and Geetanjali, and Mani, my husband, whose patience and forbearance saw me through this project. I would also like to thank all my friends for their support and encouragement, and for always being there when I needed them most.

Needless to say, the responsibility for errors of fact and interpretation, as well as the inadequacies in the research, evidence and reasoning is mine and mine alone.

Bindu Sharma

Research Approach

This research seeks to shed light on CSR as practiced and reported by companies in the Asia region. The ten countries researched are spread across Southeast Asia (Indonesia, Malaysia, Philippines, Singapore, and Thailand), Northeast Asia (China, Japan, South Korea, and Taiwan) and South Asia (India). Countries were chosen primarily on the basis of availability of relevant CSR research.

The study relies on secondary research available in each country. As there is a considerable lack of consistent research on CSR in and across countries in Asia, the study does not make any attempt to measure how each country performs relative to the others. The study also looks at broad-based discussion within civil society actors in each country - industry associations, independent think tanks, centres of excellence in academic institutions, independent consultants, and in some cases in bilateral and multilateral institutions.

In addition, the study entailed a review of individual company CSR initiatives as reported in company annual or sustainability reports. In each of the ten countries, the top five companies by market capitalisation were chosen to ensure a random selection (rather than a selection of companies with the best CSR record, which would bias the study) and with the underlying assumption that the CSR uptake among the well-resourced companies would perhaps reflect where on the CSR spectrum companies or countries are placing themselves.

Executive Summary

Society's expectation of responsible behaviour by business, generally referred to as corporate social responsibility (CSR), has become more explicit for Asian businesses in recent years. The 1997 Asian financial crisis moved Asian governments to tighten company law, competition law and corporate governance requirements of listed companies and put new pressures on businesses operating in Asia.

In addition, the rise of corporate Asia has taken two forms, both of which have come up against the global expectation of corporate responsibility: first, as growth of Asian-based supply chains to Western multinationals; and second as expansion overseas (especially Westward) by Asian-based firms in order to access larger financial and retail markets.

CSR refers to a wide spectrum of activities, ranging from philanthropy, legal compliance, self-regulation and most recently new business models responding to social needs. There is little consensus in Asia about where on this spectrum of social responsibility Asian corporations wish to be. Furthermore, little is yet known about where Asia currently fits in this spectrum, or indeed whether the spectrum needs to be redefined to fit Asian conditions.

To help remedy this lack and spur broader debate on Asian CSR, this study provides an overview of results of a two-year inquiry into the status and experiences of CSR in ten[1] major Asian countries. The study relies on secondary research available from each country, but remains constrained by a lack of consistent research on CSR in and across countries in the Asian region.

The study is organised by starting with several chapters on the general context of CSR followed by country specific reports. Chapter 1 gives a brief synopsis of what is CSR, why it is important today and the Western trajectory of CSR and the rise of civil society as a countervailing power. Chapter 2 looks at factors unique to CSR in the Asian context. Chapter 3 outlines the factors influencing the adoption of CSR in Asia. Chapter 4 briefly deliberates on the challenges faced by the Asian corporate sector in embracing CSR. Chapter 5 presents a cross-country analysis of the CSR efforts of the top five companies, by market capitalisation, in each country studied through the lens of the ISO 26000 core categories. Chapter 6 attempts to capture what Asian governments and industry need to do on the CSR front to meet global expectations.

The 10 country chapters each report on the historical or cultural antecedents of CSR, the development of CSR in the last decade or more in the country, the active promoters of CSR, and a snapshot of industry awareness and active implementation of CSR by companies.

Asian entities are picking up the conversation upstream by virtue of the discourse on CSR globally being Western-led. In particular, the nascent Asian debate is following the Western model of looking at what corporations should do beyond complying with the laws and regulations already on the books. The Asian debate focuses on philanthropy, voluntary action and new business models. But in much of Asia legal compliance is still in question, and hence deeper questions remain as to the uptake and implementation of CSR.

The potential exists to reap formidable benefits from enforcement and compliance of existing legal statutes in Asia. As with many countries across the world, Asia also needs to bring its legal framework into the 21st century to meet the challenges of a globalised and increasingly interdependent business climate.

In Asia, socio-cultural features, the business-government relationship and the State's financial capacity all influence the CSR discourse and action. During the course of the study some highlights emerge:

- Asian tradition has much to offer to guide the CSR discourse. There is much discussion around CSR, in the region, as it gains prominence on the global stage. Yet CSR is not new to the Asian business community, where traditions and cultural practices give CSR a unique identity in some countries.
- Classical philanthropy, for example the giving of funds to establish schools, hospitals and cultural institutions, is already very much a part of Asian business culture.
- Globalisation has played a role in pushing business in Asia up the CSR ladder, from one of charity to that of strategic philanthropy based on a company's core competencies. In addition, the uptake of CSR in some nations has come in light of the fact that explicit CSR standards could potentially be used as a soft trade barrier in global commerce.
- Asian consumers are still not a force to reckon with, but are increasingly finding their voice, as exemplified by the citizen response to the Sichuan earthquake in May 2008[2] and consumer response to the Sanlu milk scandal in September 2008[3], both in China.
- China also stands out as the only country where the financial sector is being

targeted to take on a role in the uptake of CSR in the wider corporate sector.

- Industry associations, most prominently the stock exchanges in more than half of the countries studied, have taken the lead in holding business to higher standards of governance, operational accountability and disclosure or transparency of corporate data.
- As in Europe, governments in Asia are playing a role in drawing up policy guidelines and voluntary codes of conduct. The business community in all countries, with the exception of Japan, has demanded that the state play a role in creating an enabling environment that encourages and facilitates business' adoption of better CSR. Indonesia, to date, is the only country that has passed legislation mandating CSR among companies operating in the natural resource sector. In India, Malaysia and the Philippines, state bodies are considering regulations requiring CSR action and setting standards for reporting.
- Although the public debate remains muted, there is a realisation among corporations in Asia that taking responsibility for production externalities upfront is beneficial to both shareholders and stakeholders in the longer term.

The twin challenges of corruption and compliance however, dog the CSR discourse in Asia. Corruption within many Asian governments and business sectors hampers business' ability to articulate and implement an uncompromised and thus credible CSR strategy. In addition, state corruption short-circuits compliance and this undermines the very basis of social responsibility required of corporations. Also, often states lack the resources to enforce legal statutes even if the political will to do so exists.

In Asia, most importantly, governments need to find their voice and build the capacity to regulate business effectively. In Western societies, basic legislative action on business governance, accountability, trading practices, operations, labour relations, production and environmental efficiencies and more came after many decades of power struggles and experimentation. Legislative and policy guidance on environmental protection, production parameters and minimum working hours began in the late 19th century and progressed through the first half of the 20th century.

In today's world, corporate power is here to stay. Civil society and governments in Asia (and elsewhere in the world) need to find an effective countervailing force to the global influence of the corporation. Pioneering successes with social enterprise in Asia are spurring creative thinking. As such creative thought unfolds in Asia, the region has an opportunity to lead the global CSR debate.

1 Introduction

Corporate Social Responsibility (CSR) has always existed, whether implicit or explicit, throughout the history of private enterprise – it is about the obligations of business to society. The obligations may differ within different cultural contexts, from business to business, industry to industry, community to community and may change over time, as they clearly have in the last few decades. How those obligations are understood and met in Asia is the focus of this paper.

Today, despite widespread discussion on CSR, there continues to be much disagreement around what constitutes CSR, and how to define it. Business variously sees CSR as corporate philanthropy, a risk management tool or an effective branding and marketing tool. A small enlightened minority see it as a new business opportunity. Most still see it as a cost, though the case for CSR being a benefit is getting stronger.

What is CSR?

While CSR may not have a universal definition, many see it as the private sector's way of integrating the economic, social and environmental implications of their activities in an increasingly interdependent world. It is now apparent that in order to remain current and engage with increasingly varied stakeholders, business must grapple with CSR. Doing nothing is not an option.

Social responsibilities generally referred to under the label of CSR have become much more explicit for Asian businesses in recent years. Firstly, the 1997 Asian financial crisis moved Asian governments to tighten company law, competition law and corporate governance requirements of listed companies and put new pressures on businesses operating in Asia.

Secondly, the rise of corporate Asia has taken two forms, both of which have come up against the global expectation of corporate responsibility: as Asian-based supply chains to Western multinationals; and overseas expansion of Asian-based firms to access both financial and retail markets.

Globally, a steady stream of corporate scandals, crises of corporate governance and the more recent financial crisis has pushed CSR from the margins to the boardrooms of corporations. These instances have led to renewed attention to business' role in society, as governments have failed to effectively regulate business or to solve the crises.

CSR refers to a wide spectrum of activities:

– Philanthropy (what is normally seen as CSR in Asia)
– Legal compliance (often overlooked as a basic form of CSR)
– Self-regulation (via internalising externalities, or honouring codes of conduct); and
– New business models (responding to social needs, bottom of the pyramid, private provision of public goods, social enterprise, green tech and others)

There is little consensus in Asia about where on this spectrum Asian societies wish to be. Little is yet known about where Asia currently fits in this spectrum, or indeed whether the spectrum needs to be redefined to fit Asian conditions. To help remedy this lack and spur broader debate on Asian CSR, this paper provides an overview of results of a three-year study of the status and experiences of CSR in ten major Asian countries.

Because the discourse on CSR globally is Western-led, Asian entities are picking up the conversation upstream. In particular the nascent Asian debate is following the Western model of looking at what corporations should do beyond complying with the laws and regulations already on the books. The Asian debate focuses on philanthropy, voluntary action and new business models. But in much of Asia legal compliance is still in question, and hence deeper questions remain as to the uptake and implementation of CSR.

The potential exists to reap formidable benefits from enforcement and compliance of existing legal statutes in Asia. Asia also needs to bring its legal framework into the 21^{st} century to meet the challenges of a globalised and increasingly interdependent business climate. Environment, labour, consumer protection, operating efficiencies often rely on laws passed in decades past and very often a century or more ago under colonial administrations.

Asian traditions and current practices provide foundations for a truly indigenous Asian debate on the appropriate meaning and nature of CSR in the region. This alternative discourse draws on deep-rooted traditional business concepts to give CSR a unique cultural identity, such as the *danwei* in China; the Gandhian notion of "trusteeship" in India; the 17^{th} century mercantilist responsibility as defined in the *Shuchu Kiyaku* in Japan; the concept of *bayanihan* in the Philippines; *gotong-royong* in Indonesia and the Buddhist *dharma* in Thailand.

Already we see emerging culturally-specified CSR concepts in some Asian countries. China's "harmonious society" construct, Malaysia's Vision 2020, Singapore's "tripartite" approach and Thailand's "Sufficiency Economy" philosophy all champion the cause of economic development that goes hand-in-hand with sustainable social development, hence setting the standard for responsible business behaviour.

Why CSR?

In this age of globalisation, corporations and other business enterprises are no longer confined to the traditional boundaries of the nation-state. This unprecedented predominance of multinational corporations across national boundaries has led civil society and in some cases governments to demand greater accountability and transparency from global business. Globally, academics have identified market drivers, such as consumers, employees, investors, business customers/partners and competitors. There are also social drivers, such as non-governmental organisations (NGOs), media, social expectations and government pressure.

In a world plagued by a growing gap between the rich and the poor, energy shortages, environmental degradation, labour rights debates, and widespread corruption, business faces pressure to respond with a credible corporate responsibility agenda. The rules of corporate governance have changed and so have the expectations of the global community. Globalisation, the intense competition for limited global resources and the continued financial crisis have kept the CSR debate front and centre in all sectors – civil society, consumer, governments and the business community itself.

In the Western-led CSR discourse many proponents claim that CSR is not about corporate philanthropy. Instead, it is about a new management and strategic philosophy for companies large, medium and small. It is about how companies make their money, not only how they spend it once they have made it. Proponents of CSR increasingly argue that it must be an intrinsic part of the corporate psyche embedded into every stage and level of company strategy and operations. The reality rarely matches the rhetoric, as short-term market valuation continues to drive much corporate behaviour. But such ideas as the "triple bottom line"[4] - measuring environmental and social performance on par with financial performance - are increasingly influential.

Cost-benefit analysis[5] increasingly includes as cost of production what used to be externalities. In the dictionary, one of the meanings of externality is "consequence of production ignored in pricing."[6] In today's world business needs to learn to internalise or pay for its externalities, not only in the sphere of the environment, but labour, community or any other stakeholders impacted by a company's operations. Today, we are living the reality of the "tragedy of the commons" with the environment and other public goods bearing the brunt of corporate irresponsibility.

In addition, pressures on business have grown in response to what is seen as the failure of governments to adequately provide public goods or to adequately regulate business in an enormous variety of areas, from social inequity to energy infrastructure to environmental degradation to corruption to human rights and labour rights. Businesses have faced pressures to address these unmet needs from an equally wide array of actors – consumers, employees, investors, partner businesses, and competitors positioning themselves as more "responsible", and even from governments hoping to relieve themselves of regulatory responsibilities.

Advocates argue that CSR represents enlightened self-interest on the part of corporations, just like the visionary industrial philanthropist of yester years who saw the well-being of the wider community as a cornerstone to a successful business. Sceptics however, still see CSR as mere public relations, window dressing and insurance against a stakeholder backlash that can impact the bottom-line, or at best an attempt at self-regulation by savvy corporations to stem hard legislation that would in effect limit their global reach. This is often referred to as CSR as public policy from the back door.

More recently, the spotlight on business behaviour has come from developing countries. With rapid economic growth in the developing world and the emergence of a large middle class in the BRIC[7] countries and the consequent rise in the number of claimants to global resources, these broad debates have moved beyond Western societies to figure increasingly prominently around the globe.

Global History and Trends

The social responsibilities of private business have long been debated, but that debate began to take on modern form with the rise of modern multinational corporations in the late 1800s. Early corporations and their founders developed new systems of philanthropy and created company towns intended to meet the basic needs of their workers and the workers' families. These industrial philanthropists of the 19th and 20th centuries ran businesses that combined hard financial principles with varying degrees of economic, social and community consciousness.

The Lever Brothers and Cadbury's in the UK and the company towns of the US, were all firsts in their respective countries, businesses that set the accepted standards of employment, manufacturing, governance and community engagement. But social backlash against what were seen as widespread abuses of the new corporate power came about in the form of "trust-busting" to break up monopolies in the US. Closer to home in Asia, Jamsetji Nusserwanji Tata was the first industrial philanthropist to found the town of Jamshedpur in India in the early 20th century.

In more recent history, Rosser & Edwin[8] argue that at every stage, MNCs embraced the notion of CSR to deflect NGO criticisms, restore corporate reputations and reduce the threat of government regulation. For instance, in the case of Nike and Shell, initially slow to respond, reputational risk was the motivating factor in responding to consumer and civil society pressure and modify behaviour.

The CSR trajectory has been traced back to Howard Bowen, referred to by many as the "father of the CSR movement". In his book *Social Responsibilities of the Businessman*, Bowen wrote: "*It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.*"[9] Later, Carroll defined CSR as *"The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."*[10]

1950s: In the now developed world, as the negative externalities of the industrial revolution (air quality, acid rain, ground water pollution to name a few) caught up with the nations, governments designed regulation and legislation to guide business behaviour as it pertained to public goods. The 1952 Great Smog in London led to several changes in practices and regulations in England, the 1956 UK Clean Air Act being the first. Around the same time, starting in 1955 the US Congress passed the first federal Air Pollution Control Act, with many others to follow. In the US and Europe legislation touching on water, land, forests, biodiversity and ecological conservation followed, though some issues had precedence in legislative action going back to the 19th century.

1960s: Starting in the late 1960s, the call for social responsibility of business coincided with the emergence of the transnational and multinational corporation and its control, and often abuse, of vast financial and physical resources overseas. At that time, the newly independent nations coming out of colonialism urged the United Nations to develop a Code of Conduct for Transnational Corporations (UN-TNC).

1970-90s: Initiated in the early 1970s, the UN-TNC was never adopted and remained stymied both by the North-South conflict and the Cold War. In December 1990 the UN General Assembly was still looking "…to arrange for intensive consultations aimed at achieving an early agreement on a code of conduct on transnational corporations, for presentation to and adoption by the General Assembly at its forty-sixth session".[11] The development of the UN-TNC, a 20-year process, was finally abandoned in 1992.[12] In addition, the anti-apartheid movement of the 1970s shed light on the issue of human rights and the subsequent obligations of the multinational corporations operating in discriminatory regimes.[13]

The trajectory of the Western model of CSR comprised:

- Enlightened industrial philanthropists and companies (Lever Brothers, Cadbury family in the UK, company towns in the US)
- Formalised philanthropy and the emergence of corporate and private family foundations
- Government legislative guidance (starting in the late 19th century through the mid 20th century laws pertaining to land and other natural resources, labour, consumer protection and operational efficiencies)
- Corporate codes of conduct, both company specific (codes of ethics for board, employees, supply chain and other stakeholders) and industry-wide (Ceres Principles, Equator Principles, the Kimberly Process, Extractive Industries Coalition, to name a few)
- New business models (eg. bottom of the pyramid, green tech, etc.)

Civil Society – The Rise of a Countervailing Power?

In building up to their current size, multi-national corporations have not always been responsible citizens whether in their own home countries or elsewhere around the globe. In the last three decades, against the backdrop of corporate scandals and their environmental and social impact in the developing countries, civil society groups have once again highlighted the subject of corporate responsibility.

The current revival has largely been led by NGOs and in some parts of the world by an enlightened and empowered consumer, pressuring MNCs towards more socially responsible behaviour above and beyond what the laws of the land require. Moreover, the information communication technology revolution has empowered all stakeholders by allowing greater visibility into how companies operate and conduct themselves, and enabling the stakeholders to create advocacy groups across geographic boundaries to exert collective pressure on corporations.

An activist agenda by civil society groups has been triggered by such disasters as the Union Carbide gas leak in Bhopal, India in 1984; the Exxon Valdez oil spill in the Prince William Sound's Bligh Reef in Alaska, USA in 1989[14]; Shell and the execution of Ken Saro-Wiwa in 1995; the Levi's and Nike supply chain misdemeanours in Indonesia; and the more recent Magellan Metals lead contamination in 2004 in the Western Australia town of Esperance killing thousands of birds in the area and associated with several health and safety breaches; Siemens' corporate bribery scandals coming to light in 2006; Mattel's recall of lead paint-based toys in 2007 and China's milk scandal in 2008 to name only a few. Furthermore, the virtual collapse of the global financial industry starting in late 2007, and corporate scandals of Enron, WorldCom, Satyam, leaves much to be desired on the corporate governance front too.

In addition, around the turn of the century, multilateral and bilateral organizations (United Nations, Organisation for Economic Cooperation and Development and UK's Department for International Development) saw CSR as a way of mobilising private sector funding for poverty reduction and sustainable development. The UN came back into the CSR space, having failed in developing a code of conduct for TNCs, with the launch of the UN Global Compact, in July 2000 by the then-Secretary General Kofi Annan.

The current financial crisis has resulted in renewed calls for corporate accountability, both financial and governance, as distinct from CSR. Lately, the corporate sector has been pro-active in its response to call for corporate responsibility and accountability, mostly in an effort to head off further public legislation and regulation which could possibly contain its global economic reach.

2 The Asian Context

In Asia, as elsewhere around the world, societies have a long history of cultural and religious giving. The idea of business' responsibility to give back to the communities in which they operate is also age old. CSR has not been absent from the traditional indigenous enterprises' agenda, but manifests itself in very different ways than seen in the West.

In many of the countries studied, an alternative discourse encompassing culture, traditional values, and politics provides a socio-economic context and a national backdrop for CSR action. Based on the ten countries studied key elements that define the practice of CSR in Asian companies are: cultural influences, classical philanthropy; State capacity, participation in global supply chains and home-grown corporate misdemeanours.

Cultural Influences

Culture matters to how societies approach CSR. There are important cultural influences on ideas of "obligation" and "responsibility" that are significant in the Asian context and this is where the Asian discourse on CSR diverges from that in the West. In China, some view CSR as the return of the *danwei* or the work unit within the Communist Party framework, responsible for not only economic production, but a range of services, from job placements and housing to health care, child care and education.

In Indonesia the emergence of CSR is seen as the resurgence of *gotong royong,* the social responsibility of all stakeholders within a community that forms the basis of age-old Javanese community relations. Similarly, in the Philippines, business responsibility is historically reflected through the deeply ingrained Filipino values of *bayanihan*, loosely described as the "cooperative spirit" or the "spirit of volunteerism", in essence a spirit of communal unity or effort to achieve a particular objective.

In Japan, mercantilist codes enshrined in the *Shuchu Kiyaku*, a document rooted in ancient Confucian philosophy, can be traced to as far back as the 17th century. The *Shuchu Kiyaku* states that trade can be carried out not just for one's own benefit but also for the benefit of others.[15]

In addition, in the case of Japan, the *keizen* approach (a Japanese term to mean steady continuous improvement) has had implications on its CSR practice, which is reflected firstly, by primarily working on aspects of CSR which can be measured, and secondly, by incrementally improving on those statistics over time. Such an approach is reflected in Japan's singular success on environmental and operational efficiencies.

Hinduism and Buddhism deeply influence business conduct and giving patterns in India and Thailand respectively. In Thailand the monarchy has a strong influence over corporate giving channelled through the Royal Foundations. In India and the Philippines too, personal giving to houses of worship may be prompted by religious and cultural beliefs, but corporate giving is largely secular in nature and directed at socio-economic community development.

Traditional Philanthropy

In Asia, "classical philanthropy" such as building schools, hospitals and cultural institutions, far from being an add-on, is driven by business necessity. In post-colonial or post-conflict countries business has had to contribute to nation-building, thereby innovatively redefining the parameters of what constitutes CSR today. With the exceptions of Japan, an OECD member country, Singapore and South Korea, the limited capacity of the State to provide an enabling economic environment and the physical infrastructure for industry, individual corporations have had to, and have, stepped in.

With minimal state welfare and infrastructure provision, companies have had to ensure that their workforce had adequate housing, healthcare and education. It is not uncommon in the developing world for corporations to invest in power, water, roads and the like in the vicinity of their operations and facilities.

Nevertheless, in Asia today, the national institutional structures of philanthropy and community involvement in are only just catching up with the broader institutions that have existed in the developed world for well over a century. In most Asian countries philanthropy has, until recently, been a communitarian effort, where the community in the immediate vicinity of operations has been the primary beneficiary of corporate giving. The few exceptions include the century-old Tata trusts and foundations in India and the Philippines Business for Social Development experiment in the Philippines started in the early 1970s.

As Nitin Desai, former Under-Secretary-General at the United Nations, said "…the giving has been more as acts of personal generosity and patronage rather than the systematic pursuit of a developmental vision."[16] Asian philanthropists have preferred to be personally involved in the grant-making process, in contrast to the more formalised approach of the Western corporate and family foundations.

Asian corporations, with Japan taking the lead in the 1970s and more recently, India and the Philippines have moved swiftly towards setting up philanthropic foundations, along the lines of Western family and corporate foundations as a way of implementing CSR.

In Singapore, historically the family foundation has dominated the philanthropic giving of large family-controlled listed companies. Since 2008 the government has played a strong directive role in promoting corporate philanthropy and has been singularly focused on building a softer image as the philanthropy hub of Asia.

The city-state launched the Community Foundation of Singapore in 2008, while at the same time encouraging the likes of the Charities Aid Foundation to open an office in 2009. In April 2011, Credit Suisse in Singapore launched SymAsia, an umbrella charitable foundation aimed at enabling Asia's wealthy to give to a worthy cause without the necessity of setting up their own foundations or alternative giving mechanisms.

State Capacity

In developing Asia, historically the limited capacity of the State to provide an enabling economic environment and physical infrastructure left corporations no option but to step up to the challenge of providing much of the "public goods" companies take for granted in the developed world. In some countries, the State and corporate sector have and continue to work closely to bring about the current economic progress – as in Japan, South Korea, and Singapore. The capacity of the state and the stage of economic development in a country influences the social contributions of the corporate sector, but this varies from country to country depending on the socio-political context.

As a 2003 seven-country study on Asia has shown, economic development is not necessarily co-related with CSR development. In the table below, Singapore, a country ranked first among the seven countries in terms of economic development, was in fact mid-table for CSR reporting, and next to last for extensive coverage.[17]

Exhibit 2.1: The Ranking and Correlation of CSR Penetration and Coverage

	Penetration (Rank Order)	Extensive Coverage (Rank Order)
India	72% (1)	36% (1)
South Korea	52% (2)	27% (3)
Thailand	42% (3)	14% (7)
Singapore	38% (4)	16% (6)
Malaysia	32% (5)	25% (4)
Philippines	30% (6)	36% (2)
Indonesia	24% (7)	18% (5)
Seven Country Mean	41%	27.1%

Similarly, comparing CSR penetration in Asian businesses versus MNCs operating in those countries, Thailand stands out as a country with domestic business outpacing the MNCs, whereas in all others countries studied multinationals outpace the domestic business community in terms of CSR practice. Singapore stands out at the other extreme with an absence of CSR practice by domestic business. Indian, South Korean and Thai businesses clearly stepped up to meet the "government deficit" whereas Indonesia, Malaysia and the Philippines trail behind. It is interesting to note that countries where domestic industry is active on the CSR front, MNCs respond with wider corporate responsibility agendas.

Exhibit 2.2: CSR Penetration in Asian Domestic and International Companies

	Domestic Companies	International Companies
India	60%	73%
South Korea	50%	50%
Thailand	60%	48%
Singapore	0%	40%
Malaysia	27%	33%
Philippines	29%	43%
Indonesia	20%	23%
Seven Country Mean	33%	45%

Global Supply Chains

On the international side, CSR entered the Asian business lexicon via local partnerships with MNCs and via Asian-based supply chains to Western-based multinationals. Starting in the 1980s, Western multinationals came under increasing pressure in their home countries to improve the environmental, labour, and human rights performance of their suppliers. They then began to adopt a growing number of voluntary codes of conduct, sometimes accompanied by third-party certification processes to ensure compliance in their supply chain too.

The anti-sweatshop movement of the 1990s pushed MNCs to acknowledge the double standards in their own operations, compelling them to take responsibility for their global supply chain. At first reluctant to follow through, increasingly both MNCs and developing country suppliers have come a long way in complying with standards, regulations and codes of conduct relating to worker's rights - wage and working conditions; health and safety issues; education and training; and more. In many countries, the poor state of labour rights is not a result of a lack of adequate regulation, but of the weak and often near absence of enforcement of national and state labour laws. Responsibility lies equally with industry, both domestic and international, to comply with home country and host nation laws..

Certifications, both international (ISO 9001 for quality management, ISO 14001 for environmental management, SA 8000 for employment practices, OHSAS 18001 for occupational health and safety, Fairtrade, Equator Principles, Kimberley Process, to name a few) and domestic (Rugmark, EcoMark in India; Textile & Apparel Council CSC 9000T in China, BCA Green Mark in Singapore) have played a role in raising the awareness and very often the bar of business operations in-country. In the Philippines, it is often said that "the CSR of small enterprises is fair trade." Japan leads the world in ISO 14001 certifications with China close behind, and is in third position following the US and Spain in companies compiling GRI sustainability reports in 2010.[18]

Corporate Misdemeanours

Globalisation, the adoption of liberal market-oriented policies of the Anglo-Saxon world, the ICT revolution, and a more aware consumer are all factors which have shone the spotlight on corporate behaviour. Corporate transgressions abound, and a connected global citizenry is quick to hold business accountable for the lapses. In

Asia, the following examples have had companies, industry groups and governments taking action to restore public confidence:

– Indonesia's BT Lapindo mudflow (2006)
– China's Sanlu milk scandal (2008)
– India's Satyam Computers accounting scandal (2009)
– Accounting frauds at Samsung, Daewoo and Hyundai in South Korea (mid-2000s)
– Ongoing palm oil controversy in Malaysia and Indonesia
– The latest Olympus scandal in Japan

In Japan stands out as a country where corporate scandals – which at first give lie to the constant rhetoric about corporate ethics – have led to genuine repentance by the companies in question, and resulted in industry-wide comprehensive remedial action. In fact, Masahiko Kawamura's[19] study provides evidence of this pattern as he traces the evolution of CSR in the last 50 years in Japan as it parallels the history of corporate reform as elaborated later in the study.

3 Factors Influencing CSR in Asia

In Asia there are some unique factors pushing business up the CSR ladder. The current social, environmental and economic challenges cannot be solved by governments alone, and governments the world over have acknowledged as much. Multiple stakeholders in this discourse have come forward individually and some times collectively to influence the uptake of CSR in each country. The state's contribution comes in the form of regulation and policy guidelines; industry via self-regulation, globalisation pressures and enlightened self-interest; and civil society through civic participation and consumer awareness.

State Regulation

As in Europe, some governments in Asia are playing an active role in creating an enabling environment that encourages business to address wider social and environmental interests, in addition to the economic imperatives of running an enterprise. Some governments have taken the lead in drawing up detailed guiding principles promoting the adoption of CSR on several fronts, alongside industry and other private & NGO initiatives.

On the legislative front, the Indonesia government takes the lead, having legislated through Article 74 of the 2007 revised Indonesia Company Law a stipulation that natural resources-based firms must allocate budgets for CSR programmes. However, Indonesia has not followed through with implementing guidelines, rendering the law unenforceable. In the Philippines, a Corporate Social Responsibility Act was tabled in 2009 in the Philippine's House of Representatives, requiring companies to observe CSR through community projects.[20]

In India, the Ministry of Corporate Affairs introduced a set of Voluntary Guidelines for CSR in 2009, but with little voluntary uptake, in February 2011 the government announced it would consider mandatory requirements. However, having periodically hinted at legislation, the most current Companies Bill 2011, has been delayed in Parliament because of the stipulations on CSR.[21] As currently presented the Bill requires large companies to constitute a Corporate Social Responsibility Committee consisting of at least one independent director, formulate and recommend a CSR policy for the company and once approved by the board, announce it on the company's website. The Bill stipulates that companies must "make every endeavour" to ensure that they spend a minimum amount (2% of the average net profits for preceding 3 years) on activities pursuant to their CSR policy. And if companies do not spend the requisite amounts on CSR activities, they must specify reasons in the board's report annually sent to shareholders, akin to the "comply-or-explain" approach typically adopted for corporate governance.

Japan stands alone in categorically keeping the state out of this debate; legislative action is seen as a last resort. The government plays a quiet role in creating the policy and legislative framework around issues in the CSR space namely, environment, product safety, equal opportunity and company law, and stands alone in its enforcement of regulations and codes.

Policy Guidelines

China has gone a somewhat different route. The State is overwhelming the business community with guidelines and codes of conduct in the hope that at least some will prove effective. In 2005, China National Textile and Apparel Council developed its first CSR management standard, a Social Responsibility Management System – the China Social Compliance 9000 (CSC 9000T) for the textile industry. In September 2006, the Shenzhen Stock Exchange released a set of "Social Responsibility Guidelines for Listed Companies". In November 2007, the China Banking Regulatory Commission released Recommendations on Strengthening Large Commercial Banks' Social Responsibilities, which required large banks to comply with the 10 basic principles of the UN Global Compact.

In May 2008, the Shanghai Stock Exchange issued two official documents, the Shanghai CSR Notice and the Shanghai Environmental Disclosure Guidelines. In August 2009, the Shanghai Stock Exchange also launched the "Social Responsibility Index", selecting the top 100 socially responsible companies listed on the stock exchange. These are only few examples of initiatives underway.

In India, as elaborated above, the Ministry of Corporate Affairs having introduced a set of Voluntary Guidelines in 2009 has now included voluntary norms in the Companies Bill, 2011 taking a "comply-or-explain" stance just short of legislation. Malaysia published "The Silver Book" setting out CSR guidelines for government linked companies and *Bursa Malaysia*, the stock exchange has made CSR reporting mandatory.

In South Korea, the government's "low carbon, green growth" policy is seen as the most powerful driver for responsible investment in Korea. In April 2009, the Japanese Ministry of the Environment released a Carbon Offset Certification Label to be attached to carbon-offset related products upon being verified by a third-party certification agency. It also announced in August 2009 a set of principles for environmental finance, with the aim to increase eco-conscious investments and environmental finance practices.

In the Philippines, Taiwan and Thailand, governments play a role in encouraging CSR but have let industry associations, NGOs, multilateral agencies and quasi-government regulatory bodies take the lead. In Singapore, the government has steered clear of any involvement in promoting CSR, but guides the CSR agenda through quasi-government entities and in pushing the historical tripartite (government-business-trade union) model.

In most countries, several government entities at the national and state level actively push CSR, but there is little coordination between the two, resulting in weak and ineffective uptake. Nevertheless, business and industry in all countries except Japan have repeatedly suggested that government take the lead in providing an enabling environment and facilitating inter-sectoral stakeholder engagement. Once more, Japan stands as the only country where industry associations provide a strong leadership on the CSR front and have come out publicly demanding that government stay out of the CSR space.

Institutional Self-regulation

Self-regulation through codes of conduct and business models is widespread among industries and companies in the US and UK. There are relatively few instances of self-regulation among the Asian countries surveyed, but there is movement in this direction.

The one institution that merits special mention across half the countries studied is the stock exchange. In China, India, Malaysia, Singapore and Thailand the stock exchange has led the charge in directing listed companies towards responsible behaviour. The measures vary from voluntary disclosure of CSR and ESG performance, annual CSR rewards and sustainability reporting to the establishment of the CSR Institute by the Stock Exchange of Thailand.

In the Philippines, the Securities Exchange Commission was the first to respond to the global corporate governance crisis, following the Enron and WorldCom debacle, with a Code of Corporate Governance even before the US Sarbanes-Oxley Act of July 2002.

In Japan, two industry associations, *Keizai Doyukai* (Japan Association of Corporate Executives) and *Nippon Keidanren* (Japan Business Federation) – define the corporate responsibility debate and lead the agenda and adoption of CSR. As mentioned earlier, the evolution of CSR in the last 50 years parallels the history of corporate reform in the wake of major corporate scandals and misdeeds that triggered waves of government regulation together with industry introspection and corrective action.

In the mid-1980s, with a spate of *sokaiya* racketeering[22] (corporate black-mailers), the first wave of globalisation of the Japanese corporation brought the idea of the "good corporate citizen". The Council for Better Corporate Citizenship[23] was established by *Nippon Keidanren* in 1989. The bursting of the asset-price bubble in 1991 resulted in the creation of a Charter for Good Corporate Behaviour in 1991 by the *Nippon Keidanren,* which can be seen as the precursor to today's CSR. The Charter now referred to as a Charter of Corporate Behaviour was revised several times in the 1990s to incorporate corporate ethics and compliance and was revised again in 2004 and 2010 to incorporate CSR.[24]

In all these countries, public, private, industry or civil society entities have introduced standards, codes or guidelines, in various forms, suggested or mandated, incorporating some mention of CSR at different levels of corporate operations and governance - stock exchange listing requirements on company governance; energy efficiency and carbon emissions; labour health and safety; consumer protection and product safety; and much more. Industry bodies and civil society groups in all cases promote and facilitate exchange between companies, sectors and the business community as a whole, providing a platform for learning and as well as sharing best practices, deepening the sector's understanding of CSR.

Civil Society

Traditional philanthropy in the developed world is evolving into community investment, often in partnership with NGOs. No longer simply a case of handing over a large cheque to a worthy cause, companies are looking for long-term partnerships, employee involvement and causes that are aligned with core competencies and corporate strategies. In the developed world, NGOs have been a key driver of CSR – as critics of irresponsibility, as agenda setters and more recently as partners with business.

In Asia, the NGO influence has been a mixed bag. With a thriving and vocal NGO sector, India and the Philippines have seen active NGO involvement and demand for corporate citizenship, though they have still to take on the mantle as civil society groups have in the US and Europe.

In India, the Centre for Science and Environment has been pushing the boundaries in holding the business community accountable for its operations and process on the environmental front. The Philippines Business for Social Progress is perhaps the only organised model of corporate engagement, where publicly-traded companies and private business have come together under a single umbrella to contribute to the social development of the country. Both countries have seen a trend in civil society organisations providing a voice to consumers, community and other stakeholders.

In the case of China[25], an onerous regulatory framework limits the development of grassroots community organisations and private NGOs that are important players in the CSR landscape. The underdeveloped nature of NGOs in China is often identified as a factor that limits the development of CSR in the country. It is hard for a civic group to register and become official. Currently, they have to affiliate with a sponsoring government organisation or entity.

With no independent legal identity, civic groups cannot legally fundraise in China – this means that there are probably thousands of community groups operating in a "grey zone". There is hence a lack of professional expertise in both companies and nonprofits and as a result the community engagement part of CSR is not as effective or efficient.

The aftermath of the Sichuan earthquake has shown the positive role that community organisations can play. It galvanised individuals as well as community groups in a way never before seen in China. Nevertheless, without a legal structure that enables NGOs to operate transparently, and develop their capacity and skills, it may be difficult for NGOs in China to drive the CSR agenda effectively. A draft Charity Law has been under discussion within China's legislative framework for several years but it has yet to be passed.

The Informed Consumer

While there are fledgling consumer awareness movements in all the countries studied, in scope and depth they are hardly as developed as similar consumer movements in the US and Europe. Although several Fairtrade producer groups exist in a few countries, especially India and the Philippines, consumer advocacy across Asia has not been correspondingly strong. Nevertheless, a few incidents have elicited a determined response from civil society.

The passionate and aggressive response by the Chinese consumer to the 2008 Sanlu Milk scandal was a wake-up call for the business community. The message was clear that the Chinese consumer was no longer a passive recipient of products but one that is willing to challenge the ethics and operating responsibility of the all-powerful corporation.

In India, public response to the land acquisition for the planned Tata-Nano car plant in West Bengal and the Vedanta mining case both point to an increasingly restive civil society. In both cases however, political opposition support has been crucial in the success of the campaigns.

Globalisation - Access to Markets and Investors

As Asian multinationals expand their operations overseas, they need to measure up to expectations of their global stakeholders (including civil society), and must comply with the regulatory standards of the developed economies.

Market share is a key driver for improving and communicating CSR performance for Asian multinationals that aspire to export to and retail in global markets. Japan, followed by South Korea and Taiwan, have long abided by the product quality bar in building up their global brands, while China and India are working towards product standards that the global consumer can trust.

In Europe, where governments and the European Commission are actively pushing corporate responsibility, the "green trade barrier" and the "labour trade barrier" are forcing countries and companies alike to respond quickly to such market forces. In addition, a globally aware consumer is increasingly looking for Fairtrade products. In Singapore and elsewhere there is reference to the potential of CSR becoming a "soft" trade barrier.

With the need for access to international finance, Japanese corporations responded to the socially responsible investment (SRI) demands of global investors around the turn of the century. Japan established its first eco-fund in 1999, the Nikko Eco-Fund, a Japanese equity fund launched by Nikko Asset Management Co., to allow for socially responsible investment based on environmental assessment criteria. By March 2001 five new Japanese equity eco-funds had been launched with similar assessment criteria.

In November 2003 the Social Investment Forum – Japan was established as a non-profit organisation with the mission to contributing to the spread and development of SRI in Japan.[26] Demand for SRI and CSR is now coming not only from the domestic scene, but from Western research agencies scrutinising Japanese companies on the triple bottom line and gradually pushing the boundaries on corporate governance and social contribution.

In China, the Bank of China launched the first SRI fund in May 2006, the Sustainable Growth Equity Fund. In March 2008, the Industrial Management Company launched the IPO of the Xingye SRI Fund to domestic investors in China. Early in 2008, the Shenzhen Securities Information Company and the Tianjin Teda Company launched China's first SRI index, "TEDA Environmental Protection Index" focusing on the top 40 environmentally responsible companies listed on the Shenzhen and Shanghai stock exchanges.

In Indonesia, *Yayasan Kehati*, the Indonesian Biodiversity Foundation, supported by the Indonesian Stock Exchange, launched the first SRI Index for Indonesia in 2009. The Kehati-SRI Index aims to raise investor awareness of companies' environmental and social track and set a reference and benchmark to track and evaluate best practice performance for investors and corporations.

Given the current trend of US and UK investment professionals who are seeking to diversify their portfolio through socially responsible investments in Asia, the UN Principles for Responsible Investment (UNPRI) is a good proxy for understanding the level of sophistication among various Asian companies who are seeking to access investments from socially responsible investors.

In Asia, SRI is only slowly gaining attention, though investors in emerging markets agree that lack of environmental, social and corporate governance (ESG) disclosure is a key challenge. The UNPRI provides a framework for investment professionals who need to give appropriate consideration to ESG issues that affect the performance of investment portfolios. In Exhibit 3.1 below, Japan and South Korea stand out with the most number of UNPRI signatories as seen in the table below, with Singapore a far third, and with the Philippines and Taiwan at the other end of the spectrum with none.

Exhibit 3.1: Signatories to the UN Principles of Responsible Investment (as of January 12, 2012)[27]

Countries	Number of - Asset Owners / Investment Managers / Professional Service Partners
China	1
India	2
Indonesia	1
Japan	20
Malaysia	2
Singapore	5
South Korea	15
Thailand	4
USA	134
United Kingdom	122

Despite the considerable activity of recent years in Asia, the effects of globalisation are not felt across the board. A 2002 CSR Survey, conducted jointly by UNDP, the British Council, Confederation of Indian Industry and PricewaterhouseCoopers, of over 100 companies in India found that only about 5% of the companies surveyed say that pressure from global partners, access to new markets, competitive advantage and global industry trends are a factor driving CSR in India. Japan, in contrast, is closer to its Western OECD counterparts in embracing CSR at the strategic operational level.

Enlightened Self-interest

Many companies operating in or from Asia have embarked on their CSR journey out of an innate sense of obligation to renew the social contract and earn a license to operate in the community. Such companies also see that CSR is not a totally altruistic venture in that the payback in the long term is tangible through enhanced reputation, and the loyalty of both customers and employees.

Among the countries studied, the Japanese companies have CSR integrated well into their business and production operations and processes, with China and South Korea perhaps moving in that direction, whereas in all the rest, CSR is still equated with philanthropy and community engagement.

In India and the Philippines, companies are most pro-actively involved in CSR through corporate foundations, especially in the area of community development. The Philippines Business for Social Progress and the League of Corporate Foundations are unique examples of corporate engagement in the community that go back several decades. There is a similar level of enthusiasm among Singapore and Thai companies, but it remains to be seen how and whether actual efforts on the ground will match their intentions.

In addition, current global environmental concerns impel CSR adoption and practice. Asia's rapid and sustained growth of recent decades has come at a huge environmental price. As in Japan, the "East Asian tiger economies" of South Korea and Taiwan also saw a high environmental cost over the first few decades of growth in the 1960s through the 1990s. For example, the World Bank notes that damage caused by water and air pollution in China amounted to between 3.5% and 8% of GDP. In 2005, China invested about RMB 238.8 billion in the treatment of industrial pollution in China, about 1.3% of the country's GDP (National Bureau of Statistics of China, 2006).[28] The need for the efficient utilisation of natural resources, reduction in energy consumption and energy efficiency are all imperatives pushing the new emerging Asian multinational corporation and domestic business alike up the CSR curve.

4 CSR Challenges

Challenges to CSR are as varied as the stakeholders in a business. Each stakeholder, be it management, investor, labour, consumer or community recognises that their interests are advanced or protected through the proper application of laws and regulations. Global experience shows that regulatory frameworks are needed to ensure that business activities are socially responsible. CSR is no substitute for the proper role of the government.

Nevertheless, today CSR is being used by stakeholders as a way of promoting a culture of legal compliance and respect for standards. With globalisation, a weakened state facing a myriad of socio-economic, developmental and environmental challenges, is using CSR as a counter-balance to the powerful business sector.

On the other hand, business is being pressured to step in to meet the governance and resource deficit faced by state parties and weak public institutions. Added to this are heightened expectations from a far more enlightened marketplace and civil society. Business' ability to respond on all fronts is constrained by the short-term financial performance pressures of the stock market, resources (both financial and personnel) and internal political will.

So challenges abound on all sides. Corruption tops the list, with the concomitant lack of enforcement of industrial regulatory framework and hence weak compliance record by industry. Very often business still views CSR as a cost, and in instances when it is willing to embrace CSR, business is dogged by the challenge of actual implementation. Heightened societal expectations coupled with low levels of stakeholder activism leaves business with a wide leeway to delay their journey into CSR space. Lastly, a lack of global standards and benchmarking leaves all stakeholders hesitant to embark on a journey that has few international metrics to measure their progress.

Corruption

Corruption and the state capacity to enforce legal compliance are often two sides of the same coin. With globalisation and the rise of big business, state capacity to enforce the rule of law has been undermined by the lack of resources and the cross-border nature of business holdings. There is growing recognition that in many countries current frameworks meant to hold business accountable are inadequate in today's globalised world.

Although corruption is not a new phenomenon, it is of growing concern around the world and a major obstacle to a credible CSR strategy in business. Pervasive corruption within most governments and often within business inherently contradicts the CSR ethos. Of the ten countries studied, only four - Japan, Singapore, South Korea and Taiwan - rank above a 5 point on Transparency International's Corruption Perceptions Index 2010, on a scale of 10 (highly clean) to 0 (highly corrupt). In fact, in 2010, "131 of the 178 countries score below five out of 10, indicating a serious corruption problem."[29]

Most often anti-bribery laws are primarily directed at bribe-takers, rather than both the giver and taker. In the last five years, Transparency International has collated a Bribe Payers Index (BPI) - a unique tool capturing the supply side of international bribery, specifically focusing on bribes paid by the private sector. The 2011 Bribe Payers Index (see Exhibit 4.1) ranks 28 of the world's largest economies according to the likelihood of firms from these countries to bribe when doing business abroad.[30]

The BPI, classifies industrialised countries (including Brazil, Russia, India and China – collectively known as "BRIC") according to the propensity of firms from those countries to pay bribes when operating abroad. According to the report, companies from Russia and China, who invested US$120 billion overseas in 2010, are seen as most likely to pay bribes abroad.

The BPI shows that a number of companies from major exporting countries still use bribery to win business abroad, despite awareness of its damaging impact on corporate reputations and ordinary communities.

In Asia, Japan leads with Singapore and South Korea close behind as countries whose companies are less likely to pay bribes in their overseas operations. Indonesia and China bring up the rear as countries whose companies are most likely to pay bribes overseas.

The Corruption Perceptions Index ranks countries based on the degree to which corruption is perceived to exist in the public sector. The Bribe Payers Index ranks countries based on the likelihood of companies headquartered in that country to bribe abroad.

Exhibit 4.1: Ranking of Countries on Bribe Payers Index 2011

Rank	Country/Territory	BPI 2011 Score
1	Netherlands	8.8 (least corrupt)
	Switzerland	
3	Belgium	8.7
4	Germany	8.6
	Japan	
6	Australia	8.5
	Canada	
8	Singapore	8.3
	UK	
10	USA	8.1
11	France	8.0
	Spain	
13	South Korea	7.9
14	Brazil	7.7
15	Hong Kong	7.6
	Italy	
	Malaysia	
	South Africa	
19	Taiwan	7.5
	India	
	Turkey	
22	Saudi Arabia	7.4
23	Argentina	7.3
	UAE	
25	Indonesia	7.1
26	Mexico	7.0
27	China	6.5
28	Russia	6.1 (most corrupt)
	Average	*7.8*

CSR as Cost

Today, in a globalised world businesses have based their competitive advantage on the low cost of labour and other inputs. The "de-industrialisation" of the West over the last three decades where MNCs have moved their manufacturing facilities over time to low cost destinations, challenges companies to respond to the CSR demands of stakeholders as against the return on investment demands of shareholders.

As long as stock markets reign, companies will likely continue to base their competitive edge on low costs, which very often results in poor and exploitative practices, be it labour, consumer, community or environment. Companies are hesitant to take on the first mover's advantage, as there is a cost attached to embarking on the CSR journey.

Capacity of Business

With performance so tightly tied to profitability, companies are challenged to make the financial and human resources required to undertake meaningful CSR initiatives. Though anecdotal evidence points to CSR as a long-term investment, initial costs oftentimes outweigh both short-term and long-term benefits that may accrue when starting out on the CSR journey.

In addition, to undertake meaningful CSR, companies have to very often start with a major shift in corporate thinking and mindset, starting from the boardroom down to the shop floor. Such changes require an initial investment of time, money and personnel, frequently in short supply in a globally competitive business.

And in companies that have mustered the political will to embed CSR at all levels of functions, taking the first steps towards action are the most challenging in a discipline that has little precedence.

Civil Society Expectations

Modern information communications technology has resulted in a well informed consumer and cohort of global citizens that closely monitors the actions of the global business community. Business is challenged to meet the heightened expectations of a far more enlightened market place and the consequent demand for business to respond with a greater level of urgency and commitment.

In Asia, stakeholder activism has yet to reach a level anywhere close to that in developed countries, but levels of awareness are much higher than a decade ago. Asia may well see this awareness translate into activism as economies prosper and countries see the deepening of the middle class. Such activism will necessarily see business moving up the CSR value chain.

Measurement and Impact

Comparing the CSR progress of countries is difficult to achieve, not least because there are no globally agreed benchmarks. Independent CSR monitoring and benchmarking is relatively weak in Asia, although some companies may have internal metrics to measure CSR effectiveness.

However, some proxy indicators allow for a preliminary effort at comparison - ISO adoption or certifications by country, GRI reporting, UNGC membership and Communication on Progress, and UNPRI numbers, to name a few.

The challenge for Asian business is to envision and redefine the CSR debate and action to meet its local realities, rather than respond to the West's articulation of the CSR space. Many in Asia see CSR as a soft regulatory or trade barrier, but instead of responding to such perceived threats, the region would do better to cast the discourse in its own reality.

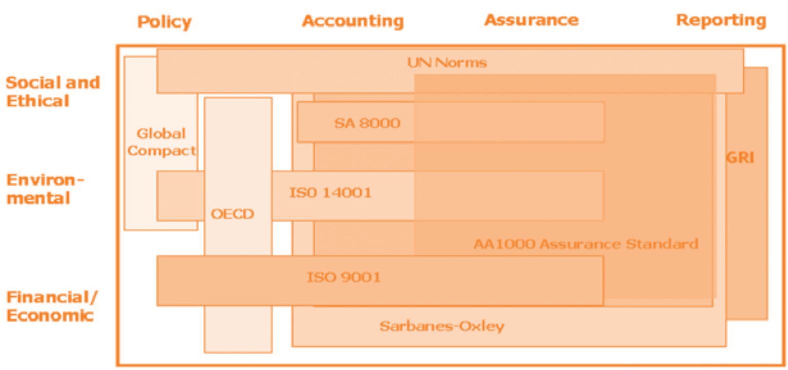
5 ISO 26000 Country Comparisons

For the purposes of this study, ISO 26000, an international standard providing guidelines for social responsibility was chosen. The decision to use the ISO guidelines stems from the fact that ISO 26000 is intended as a voluntary standard usable by organisations of all sizes, in both the public and private sectors, in countries at every stage of development.

ISO 26000 provides a good framework and seeks to "encourage voluntary commitment to social responsibility and will perhaps lead to common guidance on concepts, definitions and methods of evaluation". This provides a common standard that may in the long term, facilitate data comparability over countries and sectors that vary widely. The ISO 26000 core categories are:

– Organisational governance,
– Human rights,
– Labour practices,
– Environment,
– Fair operating practices,
– Consumer issues, and
– Community involvement and development.

Exhibit 5.1: An integrated framework for various CSR standards



As is evidenced by the diagram above, there are a multitude of CSR frameworks in use, which overlap significantly in their scope. Throughout the report, three frameworks are sometimes used as a proxy indicator for the level of development of CSR in a particular country:

– UN Global Compact: a strategic policy initiative for businesses that are committed to aligning their operations and strategies with the ten universally accepted principles in the area of human rights, labour, environment and anti-corruption;
– ISO 14001: a standard for environmental systems that is applicable to any business, regardless of size, location or income; and
– Global Reporting Initiative (GRI): GRI-G3 Guidelines set out the principles and indicators organisations can use to measure and report their economic, environmental and social performance.

The study analyses five of the largest companies by market capitalisation in each of the ten countries to gauge the extent of CSR practice in Asian business.[31] Looking across the current initiatives of leading companies in each country, a number of core elements emerge on the basis of ISO 26000 categories. In Asia, it is clear that companies across most countries are focusing on issues where effort is quantifiable. As such environmental and sustainability issues are at the forefront of CSR initiatives both intrinsic to operations as well as within community engagement programmes.

Companies are exploring and in some cases adopting efficiencies in resource consumption, energy consumption, environmental protection and conservation, and pollution control strategies. Product safety, green products, product supply-chain, product life-cycle and sustainability are issues that are slowly appearing on companies' planning horizon. Workplace health, safety and diversity are also increasingly being seen as part of core strategic planning.

The company analysis across the ten countries found that companies are aware of and have sought SA8000 (employment practices), ISO 9001 (quality management), ISO 14001 (environmental management), OHSAS 18001 (occupational health and safety) certifications; they publish Global Reporting Initiative (GRI-G3) sustainability reports; and/or are active within the United Nations Global Compact (UNGC).

Also, there is much discussion and debate on the importance of responsible business behaviour. It is evident that the larger companies are aware and increasingly willing to implement action, albeit due to global pressure. Nevertheless, increased discussion and reporting according to global norms (GRI-G3, UNGC or others) does not necessarily translate into credible action.

In every country there are numerous CSR, sustainability or citizenship awards from a number of associations and federations both national and international. It is clear from the published literature on CSR that instituted awards are as numerous as there are categories under which they are awarded. It is difficult to identify meaningfully any one or two awards that may carry some substantive credibility in any country or across the region.

Organisational Governance

All countries reviewed have extensive guidelines on board governance - comprehensive policies on tenure, independence, committee memberships, remuneration and other related terms for independent directors and company operations. Codes of conduct and ethics for directors and senior management, communication with the public and stakeholder interface are some measures taken by companies to ensure transparency in governance. Stock exchanges in most countries are taking the lead in setting listing requirements on governance and board conduct.

In the case of India, the National Thermal Power Corporation[32] and the Oil and Natural Gas Corporation[33] have signed a formal Memorandum of Understanding with Transparency International, to implement the Integrity Pact programme[34], a good governance tool to help governments, businesses and civil societies fight corruption in public contracting and procurement.

In Indonesia, the Integrity Pact has been adapted and applied to local government contracts in up to 20 districts, and in South Korea, the Integrity Pact model's emphasis is on the protection of whistleblowers and the creation of an ombudsman system to carry out independent external monitoring.[35]

In the Philippines, the Philippines Long Distance Telephone Company (PLDT) established a Corporate Governance Office, headed by a Chief Governance Officer reporting to the Board through the Governance and Nomination Committee. Major subsidiaries of PLDT also have their own Corporate Governance Officers, who are charged with working together to promote the observance of corporate governance policies which conform with, if not exceed the requirements of Philippines law, as well as the Sarbanes-Oxley Act of 2002 in the United States.

Japan is the only major market in Asia that does not mandate some degree of board independence for listed companies. Data from the Tokyo Stock Exchange's "White Paper on Corporate Governance 2007" shows that some 97% of listed companies opt for the *kansayaku* or statutory auditor system, which effectively gives management almost total autonomy and seldom provides for real, independent supervision of senior management decisions, as exemplified by the current Olympus Corporation scandal. There is a slow emergence of "hybrid" board structures, in which one or more external directors are invited onto the boards of companies that still follow the *kansayaku* system.

However, there is a marked reluctance among companies to appoint genuinely independent directors and to allow them real influence in the affairs of their companies. Of the five Japanese companies studied for this project, Toyota Motor Corporation has an International Advisory Board, NTT DoCoMo, Inc. has a US Advisory Board and Mitsubishi UFJ Trust and Banking is signatory to the UNPRI. All five companies claim to meet statutory requirements such as the U.S. Sarbanes-Oxley Act 2002 and Japan's Financial Instruments and Exchange Law.

South Korean corporate governance saw a major overhaul post-1997 Asian financial crisis. The Korean government adopted a policy of transparency aimed at making the management of the ever powerful *chaebols* (family controlled corporate conglomerates) more transparent and improving accountability. Under the Monopoly Regulation and Fair Trade Act, large corporations are now allowed to own up to 25% equity in their subsidiaries. Nevertheless, not unlike Japan, independent directors still struggle to exert real influence over company affairs.

Unique to Taiwan is the supervisor system where supervisors are explicitly defined, not as a board, but as individuals who take responsibility for independent monitoring. They do not meet and act as a board, and there is no minimum number specified. On rare occasions, monitoring of management can be the responsibility of a single supervisor. In addition, as in other countries, family owners have a great deal of discretion in terms of board appointments and leadership structure.

Also, another factor that differentiates Taiwanese corporate governance from not only conventional US/UK models but also other Asian countries is mandatory equity ownership by directors and supervisors in listed companies. In both Taiwan and Japan, one aspect of Board composition that separates governance models from other countries is the lack of any formal representation from labour.

Singapore has seen extensive debate and revision of its Code of Corporate Governance in 2011 and stands out in the region as an example of good governance standards. Nevertheless, its top ranking in the Asian Corporate Governance Association's

Corporate Governance Watch 2010, ignores the fact that the same report indicates that corporate governance culture remains Singapore's weakest link - scoring only 53 out of 100, hence implying a weak corporate governance standard when compared globally.

In line with corporate governance best practices, SingTel, the largest company in Singapore by market capitalisation, appointed a Lead Independent Director to its Board in May 2009. The Lead Independent Director serves in a lead capacity to coordinate the activities of the non-executive Directors in circumstances where it would be inappropriate for the Chairman to serve in such capacity, and to assist the Chairman and the Board to assure effective corporate governance in managing the affairs of the Board and the Company.[36]

Throughout the region, although regulators have created a commendable framework for corporate governance, and industry associations (primarily the stock exchange) have proposed and in some cases mandated best practice guidelines, most countries in Asia have yet to achieve a satisfactory level of corporate governance practice and compliance to meet global standards. Standards of auditing and compliance, accountability to shareholders, standards of disclosure and transparency and board processes vary across the countries studied.

This can be explained to some extent by two factors. Firstly, outside of Japan, corporate ownership is still predominantly family-controlled, even among publicly listed companies, with family-based shareholders holding dominant positions both at the executive and governance level.

Secondly, government is a key player in the market with government-linked, government-controlled, state-owned or public sector undertakings (PSUs) forming a large portion of the corporate sector in most countries. Disclosure, transparency and stakeholder participation suffer in such an ecosystem. In addition, widespread corruption in both the public and private sectors in many of the ten countries only adds to weak governance.

Human Rights

Across countries, information on human rights performance by corporations is not widely available, as ISO 26000 does not require reports. However companies those are members of the UN Global Compact report on human rights in their Communications on Progress reports. More often, the human rights narrative is subsumed under the labour practices category. In the case of employment of minorities, tribal communities and differently-abled people, countries have a checkered record. In Asia, many aspects of human rights remain welfare-oriented, unlike the rights-based approach in Europe and North America.

Few companies across the region cite compliance with labour laws, including avoidance of child labour and forced labour as adherence to human rights in their annual reports. Gender equality and the rights of women in the workplace remains a challenge in most countries, perhaps less so in Singapore. However, women remain a minority at the board level in every country.

Few examples of enlightened internal policy or initiatives stand out. In China, Sinopec Corporation's labour union has established the Committee of Female Workers to give special protection to female employees. The Committee tracks and strengthens protection of female employees in the production cycle.[37]

In India, the PSUs showcase their adherence to human rights via special initiatives regarding minorities. The National Thermal Power Corporation (NTPC) has an explicit policy on resettlement and rehabilitation of people displaced by their operations. National Minerals Development Corporation (NMDC), NTPC and Oil and Natural Gas Corporation (ONGC), all PSUs have explicit policies on hiring differently-abled persons.

In Japan, DOCOMO's Diversity Development Office spearheads its efforts to provide career support for women, encourage work-life balance and promote diversity. It also hires people with disabilities in keeping with the legal requirements in this category.[38]

In South Korea, POSCO established an Ethics Counselling Centre with a mandate to adopt appropriate measures and take action on cases where human rights are not respected. POSCO is also actively involved in preventing sexual harassment and also operates a Sexual Harassment Helpline.[39]

Labour Practices

Outside of Japan, Singapore and South Korea much needs to be done on the workplace front. In Japan, lifelong employment remains the cornerstone of industrial relations, though that is slowly changing. In Singapore, much of industrial relations have been dominated by the state and the historical National Tripartite Initiative.

In South Korea, with democratisation in 1987, industrial relations underwent considerable change. With the liberalisation of the labour law, the labour movement started to come out of the shadows of *chaebols* and the government. Further restructuring took place in the wake of the globalisation of the 1990s and the 1997-1998 financial crisis.

International organisations such as the Organization for Economic Co-operation and Development (OECD) and the International Labour Organization (ILO) too played an important role in improving labour standards in South Korea. The Korean case shows that globalisation and intensified competition resulted in stronger and strategic responses from labour by stimulating employees' interest in and reliance on trade unionism.[40]

Occupational health and safety, wage and gender discrimination, hours of work all are issues that have legislative and regulatory requirements in most countries, although enforcement on all fronts leaves much to be desired. Once again, companies competing globally stand out in legal compliance as they operate in a global CSR spotlight unlike their domestic counterparts.

Although overall labour standards lag behind ILO standards there are specific efforts underway at major Asian companies. For example, China Shenhua Energy Company, a Chinese state-owned-enterprise reports on production process safety and fatality rates. The company aims to be a leader in China's coal industry in terms of scale, efficiency and production safety model. In 2009, the company's fatality rate per million tonnes of raw coal production was 0.017, relatively low accordingly to world standards. The fatality rates in Chinese coal mines is 0.892 by comparison.

The company has made efforts in establishing and implementing the OHSAS 18001 occupational health and safety management system, investing approximately RMB180 million in 2009. As of 2009, all coal mines in production have an underground mobile communication system, an underground worker management information system and monitoring systems for CO, CO_2 and gas.[41]

In India, ONGC implements a globally recognised Quality, Health, Safety and Environment management system conforming to requirements of ISO 9001, OHSAS 18001 and ISO 14001 at its facilities certified by reputed agencies at all operational levels.

POSCO in South Korea established a Labour-Management Council in 1997, a representative body comprising ten representatives each from the employees and management pool. The Council is responsible for safeguarding employee welfare and for the sound advancement of the company. The Council plays a major role in fostering a cooperative labour-management relationship. For example in 2009 in the midst of the global financial crisis, the Council voluntarily froze wages as a way to join the company in overcoming the managerial hardships.[42]

Environmental Management

Japan takes the lead in actionable effort and impact on the environment front. Industry in Japan has been a leader in energy efficiency, product life-cycle management, reducing land, water and air pollution, and other environmental actions. Since the establishment of the ISO 14001 environmental management system in 1996, Japanese facilities have led the world in numbers of certifications, which generally indicates higher levels of environmental management capacity and voluntary environmental agreements[43], and new or higher energy efficiency and waste reduction targets.[44]

Toyota Motor Corporation particularly stands out for its comprehensive approach to environmental issues as embodied in the 1992 Toyota Earth Charter. A pioneer in the hybrid market, global cumulative sales of Toyota hybrid vehicles topped the 3 million mark as of February 2011, helping reduce cumulative CO_2 emissions.[45] In FY2008, the total amount of electricity generated using new energy sources, accounted for approximately 16% of Toyota's total electricity consumption.

Toyota also concluded a Green Power Certification System agreement with Japan Natural Energy Company Limited, under which it used 1.9 million kWh of wind-generated power in FY2008.[46] In addition, by August 2006, product innovation had led to the early elimination of the use of hazardous substances (lead, mercury, cadmium, and hexavalent chromium) in all production affiliates in Japan.[47]

Another Japanese example is NTT DoCoMo's commitment to collect used handsets since 1998. In 2001 it created the Mobile Recycle Network, in partnership with the Telecommunications Carriers Association, to collect handsets irrespective of carrier. In fiscal year 2008, the DoCoMo Group collected over 3.44 million handsets, bringing the total number of handsets collected to 68.78 million. Collected handsets are processed for recycling, and valuable resources like gold, silver, copper and palladium are retrieved. Remaining materials are used as a cement ingredient, while plastics are used as supplemental fuel or regenerated plastic. Further, a portion of the money made from phone recycling funds overseas environmental protection initiatives.[48]

In India, all companies studied have an environmental story. Two examples of companies taking the lead are ONGC and Bharti Airtel. ONGC first formulated its environmental policy in 1983. In 2003, it was the first PSU to be signatory to the "Caring for the Climate" initiative of the UNGC Framework. ONGC has registered four Clean Development Mechanism projects with the UN Framework Convention on Climate Change, with two more being validated.

ONGC joined the global initiative on Carbon Disclosure Project and has been reporting its direct GHG emissions associated with the drilling, production and processing of oil and gas and indirect emission from purchased grid electricity for use in operations since 2003. The company has set specific targets to complete organisation-wide Green House Gas accounting by 2011, as a prerequisite to becoming carbon neutral.[49] In 2008 it set up the ONGC Energy Centre with the aim to conduct research on new and alternative energy sources.

Bharti Airtel's environmental policy highlights energy efficiency, resource conservation and environmental consciousness in operations, office infrastructure (water recycling, energy-efficient lighting and air curtains on major office exits) and routine office functions (HR automation saves approximately 600,000 sheets of paper a year). The company reports teaming up with other global players to focus on energy optimisation by way of introducing energy-efficient equipment and exploring alternate energy sources such as wind, solar, bio-fuel and hydrogen to reduce its environmental impact.

Bharti Airtel is the first Indian company to apply for carbon credits by implementing energy-efficient power interface units and back-up cooling systems. According to its 2010-2011 Annual Report, "The Green Shelter concept for BTS, comes with optimal cooling, power and thermal management systems, thereby minimizing the running of backup systems like diesel generator sets. The solution reduces the operational cost by as much as 40% as compared to conventional shelters and avoids contributing to global warming by minimising greenhouse gas emission."[50] Airtel follows EU WEEE (European Union - Waste Electrical and Electronic Equipment) norms to dispose of end-of-life electronic equipment enabling responsible recycling.

Similarly in Singapore, SingTel, the largest telecommunications service provider, is managing its energy consumption by constructing a new green data centre (the Kim Chuan Telecommunications Centre 2 was awarded the Green Mark Gold by the Building and Construction Authority in Singapore), installing a Grid-Tied Solar Photovoltaic system at its Pasir Ris Telephone Exchange, and implementing a solar-power base station at Sungei Buloh.[51]

In South Korea, the government's recent "low carbon, green growth" policy is seen as the most powerful driver for responsible investment in Korea. POSCO signed an MOU with the Korean government to respond to changes in the ocean climate in 2007. As part of this effort, the company developed the "Triton" brand artificial reef to help restore marine habitats destroyed by rising sea temperatures. Triton is a quick way to repair damaged marine ecosystems and resources, including algae and shellfish.

The main material for Triton is steel slag, a by-product of steelmaking that is richer in calcium and ionised iron, and which is more beneficial for ecosystems than ordinary aggregate. The presence of these minerals stimulates the growth and photosynthesis of algae, and purifies contaminated seawater and sediment. In addition, Triton's sea forest is capable of CO^2 fixation from carbonisation and seaweed photosynthesis.[52]

Even in environmental laggards like Indonesia, action by individual companies points to an uptake in CSR. Telekomunikasi Indonesia Tbk transformed former refuse disposal sites in Pasirimpun and Cicabe into parks that can be used by the public for sports and recreation. As urban forests, they also function as the lungs for the eastern part of Bandung. TELKOM's support for and participation in process of transforming land functions in the east Bandung area to achieve a balance in the ecosystem has inspired the municipal government to continue expanding the number of green spaces throughout the city of Bandung.[53]

The Philippines has one of the most voluminous set of environmental laws in Asia. According to Antonio Oposa, Jr., attorney with the Philippine Ecological Network, the legal framework of environmental law is sufficient in substance and in form, but the state lacks the will and many times the ability to enforce the laws.[54]

In China, India, Taiwan and Thailand there is much on the books but much needs to be done, although Taiwan stands out with environment as the issue of most concern to companies with regards to their CSR efforts. On the other hand, Malaysia and Indonesia stand out as countries which time and again get rapped for not doing enough on the environment front.

Fair Operating Practices

It would be fair to say that "all is fair game when it comes to operating practices" in most of Asia, outside of Japan, Singapore and perhaps South Korea. Corruption, as discussed earlier, is perhaps the single most difficult issue facing civil society in Asia. Corruption in the private and public sphere reduces the quality of products and services, increases the environmental and social costs of goods, limits opportunities to develop a competitive private sector and undermines trust in public institutions and private companies.

The reputational and financial risks are enormous, and globalisation pressures of competiveness, efficiency, governance, safety and health and the triple bottom line are hopefully changing the way business is done in Asia. More often than not, there is little in company reports on responsible political involvement, fair competition, promotion of social responsibility in the value chain or respect for property rights.

Singapore and Japan have much to offer in the fight against Asian corruption. Singapore shares first place with Denmark on Transparency International's Corruption Perceptions Index 2010. Japan maintains a degree of integrity in government and private business that many other Asian countries can only aim for, but is still far from perfect. Japan still has many grey areas with questionable business-as-usual practices.

In 1998, not one member of ASEAN had developed its own competition law. Today, Thailand, Indonesia, Singapore and Vietnam all have full-fledged national competition laws in place.[55] To date, with the exception of Thailand, the enactment of competition laws in ASEAN countries resulted from international commitments rather than from domestic policy. India, South Korea and Taiwan all have anti-trust laws, nevertheless, India's anti-trust (monopoly) laws have seen family conglomerates flourish in the "license raj", and competition laws are new to India after the turn of the century. Similarly, in South Korea, *chaebols* (family-controlled corporate conglomerates) like Hyundai, LG and Samsung continue to flourish and in Taiwan large corporate enterprises still hold sway. In China, the state is fast enacting competition laws since its acceptance to the World Trade Organization.

Japan's well known development under an umbrella of government-guided "industrial policy" tended to restrict competition, with the *zaibatsus*[56] dominating the industrial leap after the Second World War. However, Japan does have an Antimonopoly Law enacted in 1947 and administered by the Japan Fair Trade Commission which was little used until the 1990s.[57]

Nevertheless, a few independent efforts by companies in the region point in the right direction. In India, in 2007 the National Minerals Development Corporation (NMDC) in partnership with Transparency International, embarked on a shared responsibility to combat bribery and corruption. NMDC implements an Integrity Pact to ensure that counterparties are handled in a fair, transparent and corruption-free manner and to raise the integrity levels in the company's civil works, procurement and contract work procedures bringing internationally acclaimed best practices to its operations.

In China, in 2009 PetroChina reinforced anti-corruption training for management at all levels, and created an Anti-Corruption Training Course and Guidance for Honesty of Senior Managers, based on the Regulations on Honest Business of State-owned Enterprises' Leaders, to establish a moral culture and a system to prevent corruption at source.[58]

In Singapore, the Development Bank of Singapore Holdings (DBSH) has adopted more stringent "black-out" policies than prescribed under the Best Practices Guide issued by the Singapore Stock Exchange. DBSH employees are prohibited from trading in DBSH shares and securities one month before the release of the half-year and full-year results and three weeks before the release of the first quarter and third quarter results. In addition, directors and employees are prohibited at all times from trading if they are in possession of material non-public information. Employees with access to price-sensitive information in the course of their duties must obtain prior approval to trade in any securities listed in Singapore and Hong Kong.[59]

In 2003, POSCO opened a "Gift Return Center" in South Korea, to root out the old practices of giving and receiving gifts with any interested parties during the Korean holidays. Items that fail to be returned are donated to charities. The remaining items that failed to be donated are sold at internal online auctions and the proceeds are used for social contribution funds.[60]

Consumer Issues

Consumer protection laws have variously come into effect in the last decade or more in the countries studied. Nascent consumer movements have emerged to encourage consumers to act on their own initiative to select products and companies with a good track record and to voice their opinion to companies on an equal footing.

The consumer movement, still weak compared to that in the developed countries, leaves much to be desired in terms of organising the individual consumer, and its voice to be heard at a national level. However, the ubiquitous use of technology - the internet, blogging and now social networking sites is creating a unified consumer voice never seen before in the region. Media and collective civil society action facilitated by technology is changing the consumer from a passive to a more assertive and pro-active consumer - a consumer aware of his/her rights, pushing businesses to deliver product quality, safety and other socially responsible behaviours.

A good example is China where following several successive corporate misdemeanours (the turning point being the 2008 Sanlu Milk scandal), consumer and civil society outrage left business with no option but to respond. In addition, in the aftermath of the 2008 Sichuan earthquake, public tracking of corporate giving created popular pressure that businesses could not ignore.

Despite a weak consumer movement, across the region companies are adopting consumer-oriented initiatives in many small ways. In Indonesia, TELKOM, together with the Indonesian Internet Warung Association, has launched a new domain name system (DNS), Nawala, as part of the effort to establish a "safe and healthy internet". DNS Nawala is provided free of charge and can be accessed freely to filter out negative or pornographic content, and block dangerous content, such as malware and phishing, by changing the IP DNS on the user's computer. DNS Nawala can also save on consumers' bandwidth by up to 30% by filtering out negative content.[61]

In Japan, in 2007 NTT DoCoMo[62] launched the Area Mail Disaster Information Service, which broadcasts to all mobile phones in a designated area any earthquake alerts coming from the Japan Meteorological Agency, and disaster and evacuation information from national and local government authorities. NTT DoCoMo has played a leadership role in consumer safety. In an effort to enable safe and secure usage of mobile phones by youth, it has introduced systems to restrict site access from mobile phones during certain hours and systems for filtering out certain sites that could be a harmful influence.

In addition, the FOMA F801i phone has features for protecting children, including an alarm that alerts people nearby with a loud buzzer and high intensity light-emitting diode light if triggered by a child in an emergency situation. This is integrated with their Imadoco Search service where an email alert is simultaneously sent to the phone of a pre-registered parent or guardian who can then trace the location of the handset on a personal computer.

NTT DoCoMo has several disability-friendly devices, such as the Sound Leaf Plus, a product for people with hearing impairments or those who need to use mobile phones in very noisy environments, as well as the Raku Raku Phone series, which is equipped with features such as text-to-speech that are widely used among persons with visual impairments.

In South Korea, the Shinhan Financial Group companies provide special services for physically challenged customers, offering them convenient access to all financial services. Shinhan Bank operates special ATMs for disabled customers. Most notably in November 2009, it introduced the "Eye Comfortable ATM," which provides large letters on monitor screens. Shinhan Card launched internet chatting services in December 2009 for hearing- or speech-impaired customers. This service is also used by younger customers who prefer consultation through instant-messaging.[63]

The Bank of the Philippines Islands (BPI) targets the overseas Filipino community and bundles remittance services with products that are relevant for their needs, such as financial education and micro-entrepreneurship programmes. The focus on consumer education has been very successful with BPI named the Top Commercial Bank for Overseas Filipino Remittances for three consecutive years.[64]

Community Involvement and Development

Community development and engagement is one aspect of CSR that gets the most attention in countries in South and Southeast Asia. More often than not, it is focused on philanthropic, one-time activities and grant giving. In the context of developing countries such initiatives remain particularly important as the governments often lack the resources to provide for much-needed public goods.

Companies that have set up corporate foundations to implement their CSR programmes, primarily focus on community development, education, health and the environment. Environment issues that pertain specifically to company operations get reported separately in the annual reports or sustainability reports and not under CSR.

In India and the Philippines this category of stakeholder engagement dominates. Most large companies have either set up their own foundations or contribute heavily to directly support the community in which they have their operations, or communities that are impacted by their work, notably in the areas of health, education and livelihood training. China is catching up on the foundation wave, while Thai businesses continue to fund the Royal Foundations that form the basis of corporate giving for community and social development.

Major Japanese multinationals have corporate foundations but community engagement is still not an operational norm. Similarly in South Korea, corporate foundations are common but community engagement is not common practice. A 2002 study by the Korean Foundation and Philanthropy Society reported over 3,000 foundations operating in Korea of which approximately 2,000 were corporate foundations, with the primary focus of the corporate foundations being the health and medical sector, followed by culture and arts, social welfare and scholarship.[65] Support for environmental issues is on the rise but still represents a fraction of overall foundation spending.[66]

In Taiwan, community development has historically been a government function. Foundations have been established since the 1980s, with two thirds of them formed after the 1987 democratisation. Corporate foundations make up approximately 25% of the foundations in Taiwan with private, community and government foundations making up the rest. Corporate engagement with the community in which it operates has been slow to come and still continues to be more philanthropy and disaster relief-oriented.[67]

In Indonesia, Malaysia and Singapore, private family foundations are still the norm and the focus more charitable and philanthropic, whereas corporate foundations are still relatively rare. In recent years, Singapore has seen several initiatives encouraging private philanthropy, such as the Community Foundation Singapore, SymAsia Foundation, and the Singapore chapter of the Charities Aid Foundation to name a few.

Nevertheless, every country has its examples of enlightened corporate entities. Some examples from around the Asia region illustrate how companies are responding to community needs in the vicinity of their operations and often to wider socio-economic deficits within the country.

In China, Sinopec through its “Spring Bud Program” influences patriarchal mindsets of male superiority and encourages parents to allow their girls to enter senior high school. Since the programme was launched in 2004, the company has assisted more than 30,000 girls from 26 impoverished counties in Sichuan, Gansu, Guizhou and Hunan Provinces to finish their courses in primary school from grade 4 to grade 6 and in senior high school.[68]

In India, ONGC launched the Providing Urban Amenities in Rural Areas (PURA) initiative in 2003-04, a concept put forth by former President Dr. A. P. J Abdul Kalam. Under PURA, ONGC uses its idle gas wells, output of which cannot be marketed commercially, to produce power for communities in the vicinity of the facility for schools, healthcare units and cottage industry.[69]

In Malaysia, CIMB Group Holdings’ CIMB Foundation launched the “My Cause: Photos That Make a Difference” contest in May 2009 in an attempt to engage the community in programme identification - a nationwide photography contest which aimed to empower the public to highlight causes which they thought the Foundation should fund.[70]

In the Philippines, SM Investments Corporation as part of its health advocacy portfolio under its CSR programme provides mobile medical and dental services to low-income, marginalised, and remote communities. The Foundation goes to such areas fully equipped with its two mobile clinics, a complement of volunteer doctors, dentists, nurses, and aides to perform laboratory and diagnostic procedures. Aside from the free medical and dental check-up, diagnosis, and treatment, patient-beneficiaries are also given prescription medicines donated by SM Foundation's supporters. To ensure a wider reach, the foundation partners with government and NGOs.[71]

In Singapore, DBS Bank launched the POSB Active Neighbours programme under a strategic partnership with the Council for Third Age in June 2009. Under this programme, seniors are recruited to work up to two days a week at POSB. Their tasks include assisting customers, especially their peers, with their banking transactions and encouraging the use of self-service banking facilities.

POSB also continues to provide special products and services for seniors. Every Tuesday, POSB sets up dedicated counters to serve seniors during the first three opening hours. On what is dubbed as "Special Tuesdays", seniors are served drinks and snacks while they wait their turn to perform banking transactions.[72]

In South Korea, Samsung Corporation's Assistance Dog Centre trains dogs that assist people with hearing impairments and those undergoing therapy. The centre is a member of Assistance Dogs International and International Association for Human Animal Interaction Organisation. Samsung also operates and funds Korea's first Guide Dog School for the Blind, which since 1993 has helped people with visual impairment regain independence and become more active members of society. The Samsung Detector Dog Centre works closely with the South Korean military, police and emergency agencies to train dogs to detect narcotics and explosives. Once trained at Samsung's specially designed facilities near Seoul, Samsung loans or donates its trained dogs to the authorities and provides ongoing training assistance.[73]

As can be seen from the above narrative, companies across industries - from manufacturing to services - have endeavoured in many ways to narrow the public good deficit that exists, whether because of limited state capacity or insufficient resources.

6 Moving Forward in Asia

Compliance to the existing legislative and regulatory framework should be the mantra for CSR in Asia for the current generation of corporate entities. State capacity to enforce compliance by industry is very often constrained by pervasive corruption and the limited resources of the developing economy governments.

In the individual country narrative it is amply evident that in many countries the poor state of labour rights or environmental degradation is not a result of inadequate regulation, but the weak enforcement of national and local laws. Enforcement is the basic first step for governments to create a compliance culture and an environment conducive to industry taking on responsible citizenship "beyond compliance".

In addition to weak regulatory infrastructure in the majority of the countries studied, globalisation undermines the national regulatory systems under which governments could level the playing field for all businesses.

With CSR, business is being required to replace that regulatory approach or face a backlash from society. It may behoove the corporate sector in Asia to work on building the regulatory and enforcement capacity of governments so that business is not expected to play this governing role in the future. CSR can in fact be business' willingness to contribute to the governance deficit today, not by usurping that role, but building public institutional capacity to level the playing field not only across business but across stakeholders.

In addition, business may also pursue measures previously seen as CSR for strategic reasons having nothing to do with the expectations of external stakeholders, as they revamp their strategies for what is increasingly seen as the coming age of resource scarcity. The intense competition for limited global resources will push businesses to achieve levels of resource efficiency that we can only imagine today. Ashoka, a non-profit that pioneered the social entrepreneurship wave, has been "investing in new solutions for the world's toughest problems" for three decades, and has since moved from the margins to the mainstream of business thought leadership.

It may well be the SME that will define the CSR trajectory in the years to come. Closer to the community it operates in, the SME sector as a collective is the largest employer in most economies. In the 30 countries that comprise the OECD, SMEs represent over 95% of enterprises in most countries and generate over half of private sector employment.[74]

Similarly, SMEs play a key role in transition and developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings.[75] In Thailand, in 2008 SMEs comprised 99.7% of total enterprises and employed 76% of the total workforce in the country.[76] In India, in 2007 SMEs were the second largest employer after agriculture and contributed 45% of industrial production and 40% of total exports.[77]

Moreover, Asia may still shine through with its pioneering success with social enterprise. With examples like Grameen Bank and BRAC in Bangladesh, Self-Employed Women's Association (SEWA) in India, Population and Community Development Association in Thailand, CSR will no longer be defined by current parochial business practices but by the ethos of responsible social enterprises still to come.

These Asian examples, many started as non-profit organisations now operating in the business space, have shown the way, where big business has failed. Today's emergent social enterprise will be tomorrow's leading corporation. It is only a matter of time before the next generation of companies become inherently responsible and sustainable.

And the current corporation will then need to have a clear, credible and successful CSR strategy, for in the future access to capital will hinge on a company's ESG – environmental, social and governance issues and more.

7 CHINA

The Harmony Approach

Abstract

CSR is a relatively new concept in China, with its promotion in the domestic market still in its infancy. Through the 1990s, until the early 2000s, CSR was viewed as a Western concept, of concern only to Western companies in China. Many in business and government viewed it as a "new" trade barrier or a form of trade protectionism. At around the same time China increasingly became the "factory and shop floor" to the multinational world, CSR efforts were slowly adopted first within the supply chain and then by Chinese companies looking to do business internationally.

Much has changed since 2005 when President Hu Jintao's "harmonious society" construct provided a favourable political and social backdrop to encourage CSR development. Numerous government, private and industry guidelines on CSR have inundated the Chinese business environment pushing them to acknowledge the fact that CSR's time has come.

In China, the State-Owned Enterprises (SOEs) are leading the charge with increased reporting and stakeholder engagement, and in shaping the nascent understanding and recognition of CSR. With the state at the top of the CSR pyramid, it is hoped that CSR will make an impact not only on Chinese businesses but also the country's economic development. Marc Parich of APCO Worldwide Inc. notes: "while wary of CSR in the past, the Chinese government has in recent years promoted the practice as a means to fill developmental gaps and meet social objectives".[78]

Nevertheless, 2008 marks the key inflection point for CSR in China, defined by two events, the corporate response to the Sichuan earthquake in May 2008 and the Sanlu milk scandal in September 2008. Both events brought home the point of business' responsibility in terms of accountability to civil society and product quality respectively. For the first time "trust" came into the equation of the civil society-business relationship.

Of the seven ISO 26000 categories, environmental stewardship and product quality - both important aspects of brand image, are two issues that businesses are taking up in their quest to integrate CSR into business strategy. Also, China stands out from the rest of the region in that the banking sector has been the target of several sustainability guidelines aimed at the sector. It is anticipated that the banking sector, dominated by state influence and with its financial clout will be able to push the CSR agenda down the line to the manufacturing and service sector.

Background

- Gross Domestic Product: $4.985 Trillion US dollars[79] (at current prices).
- Population: 1331.46 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): $6,890.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 139.[80]

Historical Context

According to Ed Ahnert, "The story of the origin of China is about unification and bringing order from chaos through consolidation of power in a strong central government. To maintain and reinforce this order much early Chinese political philosophy deals not with individual rights but with the obligations of key individuals or groups to each other. Confucian norms were the foundation of order in imperial China for over two millennia."[81]

Today, despite the fact that formal Confucian institutions and rituals were largely destroyed in the twentieth century, China is shaped by Confucianism, which values family before the wider community, but community over self. The communist ethos and state ownership of resources since 1950 has prevented the private accumulation of wealth, thereby rendering the concept of personal philanthropy unwarranted. During this period there was no distinction between public and private, with no sense of community, self-help or corporate citizenship.

Western concepts of volunteerism and philanthropy are concepts little recognised by the current generation in China. No meaningful charitable, philanthropic, non-profit sector exists to effectively mobilise and support community engagement country-wide.[82] Nevertheless, Chinese cultural traditions and the concepts and teachings of Confucius, woven into the society at large, play a role in promoting CSR. Personal philanthropy and family values are attributes that lead the way in corporate responsible behaviour.

Economic Context

China's dramatic growth in the past three decades, averaging almost 10% a year over the past quarter century[83] and its expanding engagement in the global market has captured world attention. It was only after the 1978 reforms that China began to develop modern corporations, whereas the development of the Chinese multinational has an even shorter history. The global presence of Chinese enterprises is growing rapidly in several sectors, such as manufacturing, natural resources, agriculture, infrastructure, telecommunications and information technology. In August 2010, China overtook Japan to be the second largest economy in the world after the United States.[84]

Before 1980, the *danwei* or work unit was the social hub of urban socialist China. The *danwei* was responsible for not only economic production, but provided a range of services, from job placements and housing to health care, child care and education. When China's economic reform gained momentum, the *danwei* disappeared.

The recent wave of CSR in China strikes many observers as an important revival of corporate promotion of social objectives. According to Nora Gao of the Social Venture Group, CSR in China is not new for most organisations, but rather its formal return to the social objectives they once pursued.[85] It is important to note that "corporate" in the "old China" was the state, as all economic activity was state-operated and state-controlled. Even today, the same is true, the business sector is dominated by state-owned enterprises (SOEs) and hence they are the ones leading the charge on the CSR front too.

Development of CSR[86]

Exhibit 7.1: CSR Timeline of China

Date	Milestone
1990s	Current form of CSR was introduced to China by Western MNCs as China increasingly became the "factory and shop floor" to the multinational world.
1994	Company Law explicitly addressed issues of labour rights and employee rights.
2005	President Hu Jintao's statement declaring that the country construct a "harmonious society", a widely publicised socio-economic goal, provided a favourable political and social backdrop to encourage CSR development.
2005	China National Textile and Apparel Council developed its first CSR management standard, a Social Responsibility Management System – the China Social Compliance 9000 (CSC 9000T) for the textile industry.
2006	President Hu Jintao at the Central Government Economic Working Conference stated that the government should encourage corporations to establish modern business values and to assume social responsibility.
2006	Company Law gives explicit recognition to CSR, it requires companies to adhere to social and business ethics as well as fulfil social responsibilities.
May 2006	The Bank of China launched the first SRI fund in China, the Sustainable Growth Equity Fund.
Sep 2006	Shenzhen Stock Exchange released a set of "Social Responsibility Guidelines for Listed Companies".
Jul 2007	China officially launched the first of its green finance policies.
2007	China Banking Regulatory Commission required the State Environmental Protection Administration to pass on details of corporate environmental law violators to China's central bank, which blocked or withdrew loans to a dozen such companies.
Nov 2007	China Banking Regulatory Commission released Recommendations on Strengthening Large Commercial Banks' Social Responsibilities, which require large banks to comply with the 10 basic principles of the UN Global Compact.

Feb 2008	"Green Insurance" policy regulating insurance companies; and the "Green Securities" policy regulating China's capital markets.
2008	State-Owned Asset Supervision and Administration Commission issued "the Guiding Advice on Fulfilling Social Responsibility by Central Enterprises".
Apr 2008	Eleven industrial associations jointly presented the Social Responsibility Guide of the China Industrial Companies and Industrial Associations.
May 2008	The Shanghai Stock Exchange issued two official documents, mainly the Shanghai CSR Notice and the Shanghai Environmental Disclosure Guidelines.
Dec 2008	Shanghai Stock Exchange further accelerated CSR disclosure by mandating three types of companies to issue annual CSR reports - companies listed in the Shanghai Stock Exchange Corporate Governance Index, companies that list shares overseas and companies in the financial sector.
Apr 2009	Global Compact Local Network China was formally launched.
Aug 2009	Shanghai Stock Exchange also launched the "Social Responsibility Index", selecting the top 100 socially responsible companies listed on the stock exchange.

Factory and Shop Floor of the World

Today's current form of CSR was introduced to China by the Western multinational corporation (MNC) during the 1990s as China increasingly became the "factory and shop floor" to the multinational world. The catalyst was the MNCs' effort to appease consumers in their home countries who were concerned about labour conditions in the company's foreign operations.

The first stage of CSR in China started in the mid 1990s when Chinese companies themselves stepped on to the international stage, first as dedicated suppliers to larger MNCs and then as independent exporters of products and services. This required Chinese companies to comply with codes of conduct and standards established by the multinational companies for their international supply chains. It was, at that point, in the economic interest of the Chinese companies to comply with established Western CSR standards.

Initial CSR adoption in China focused on monitoring and enhancing labour standards, and was in large part a box-ticking exercise (both by MNCs and Chinese companies) aimed at satisfying local legal and regulatory requirements. Today, most MNCs may have moved on from the box-ticking days due to pressure from home country civil society and participation in international codes and standards, but the gap between intent and action within the Chinese corporate sector is still wide.

APCO's Parich believes that, "To a large extent, the promotion of CSR in China [has been] about ensuring compliance to basic standards and regulation"[87] as the adoption of CSR was due in part because of consumer protests over labour exploitation. Early in 2010, Ren Zhiquiang, chairman of Huayuan Group, a real estate company in Beijing, described CSR as operating "in accordance to law and in accordance to fairness – assuring workers' [well being], while maintaining day-to-day operations within the law."[88]

With the rapid globalisation of China, at the turn of the century, the second stage saw the introduction of CSR to SOEs and to society at large drawing wide attention and debate. At the same time, academic institutions, NGOs and international organisations began to introduce the concept and promoted extensive study and discussion. In addition, government bodies created CSR investigation committees to study the development of CSR in China.

In the current active stage, President Hu Jintao's 2005 statement[89] declaring that the country construct a "harmonious society", a widely publicised socio-economic goal, provided a favourable political and social backdrop to encourage the development of CSR. This was subsequently followed by a 2006 statement where he stated that the government should encourage corporations to establish modern business values and to assume social responsibility.

Since this pronouncement, government support has been fundamental in increasing awareness and the uptake of CSR among local companies. Clearly, the Chinese government sees developing CSR as an effective means to building a harmonious society and urging the business sector to contribute to sustainable development.

And in January 2007, the National People's Congress Standing Committee Vice-Chair Cheng Siwei announced that anyone who believes that "money overrides morality can no longer be tolerated in China." Cheng noted that People's Republic of China (PRC) companies must not pursue profits at the expense of upholding social responsibilities. Irresponsible corporate practices, he said, were preventing PRC businesses' overseas expansion and inhibiting PRC economic growth.[90]

The CSR Point of Inflection

Though the launch of the "harmonious society" construct in 2005 was the turning point in China's acknowledgement of the relevance of CSR in business today and was followed by the numerous codes and guidelines, public understanding and stakeholder expectations only caught up with it after two significant events in 2008. It is important to note that this change came about through popular pressure and not just government action.

The Sichuan earthquake in May 2008[91] and the Sanlu milk scandal in September 2008[92] mark a point of inflection in the CSR journey of China's business environment. In the case of both events, product quality and business' ethical and moral compass were in the spotlight. Only then did business responsibility and civic accountability come into the forefront of the business owner-stakeholder relationship.

Consumer Rights

According to Stephan Rothlin, Secretary General of the Center for International Business Ethics in Beijing, "(with) the latest recall of potentially harmful toys by Mattel, to poisonous pet food and harmful toothpaste, it is clear that the issue of product safety in China can no longer be ignored."[93] These scandals, a result of an obsession with price cutting measures and the pursuit of profits at any cost, brought home the point of a consumer's right to a safe product.

Sanlu Milk Scandal

The Chinese Health Ministry announced that over 6200 babies had fallen ill, many developing kidney stones, from drinking milk made from toxic powder. It was later revealed that the milk powder, produced by Chinese dairy giant Sanlu Group, was contaminated with melamine, a chemical used in making plastics. Melamine has been illegally added to food products in China to boost their apparent protein content. The Sanlu scandal revived longstanding concerns about the safety of Chinese products.

Further, the 2008 Sanlu milk scandal was a real wake-up call that pushed the Chinese consumer from being a passive recipient of products to one that is demanding of ethics and operating responsibility of the all-powerful corporation. Chinese consumers are now prepared to be more assertive in protecting their rights and interests. In addition, the Chinese consumer is also slowly evolving into a responsible consumer, not willing to purchase products from corporations that violate the law or infringe employee rights, or are the central cause of neighbourhood pollution.

Public Perception of Business Responsibility[94]

In addition, to the aforementioned rise in awareness of consumer rights, the Sichuan earthquake marked a watershed in the understanding and awareness of CSR among the Chinese public. Firstly, the collapse of public infrastructure highlighted the poor quality of construction and secondly, the slow pace of response of the business sector, more specifically the multinationals, in contributing to relief measures reflected the change in public expectations from the corporation.

MNCs operating under the perception that adoption of international CSR norms was adequate, received a rude awakening in the aftermath of the earthquake. The scale and timeliness of aid response by both domestic and multinational corporations crafted Chinese attitudes towards companies. In the days and weeks following the Sichuan earthquake, many MNCs pursued a global CSR policy in line with their international standards. Domestic firms, by all counts (cash, goods, equipment and services) out-donated multinationals. The popular perception was that MNC relief contributions not only did not match those of their Chinese counterparts in terms of scale and timeliness, but were also not commensurate with their presence in the Chinese market.

Corporate Response to the Sichuan Disaster – Social Pressure for Philanthropy

VanKe, China's largest real estate development firm, met with immediate criticism from netizens in response to chairman Wang Shi's initial pledge of only two million RMB (US$290,000) and his insistence that company employees donate no more than 10 RMB each (US$1.40). Wang apologised with a second donation of 100 million RMB (US$14.3 million) on June 6, admitting his comments and actions had affected the brand image and share price negatively.

Chinese consumers quickly seized upon this disparity calling for a boycott of MNC products and publicly shaming companies that donated too little. For the MNCs, the ensuing consumer backlash came as a shock, while for the domestic corporate sector it was the birth of the consumer as a power not to be ignored. This sudden exercise of collective consumer awareness brought the CSR debate to the forefront of the business agenda. This is a turnaround from the initial catalyst role played by multinationals where they lead responsible business behaviour in China.

On the other hand, firms that acted quickly and generously enjoyed an extremely favourable public response. Wang Lao Ji, an herbal tea soft drink, quickly became one of China's most well-known and highly esteemed brands after its parent company, JDB, donated 100 million RMB on May 18. By May 24, demand for Wang Lao Ji was so high that JDB struggled to fill the shelves of China's groceries and restaurants.

Moving forward, increasingly, CSR initiatives in China are greatly affected by the modern day "word-of–mouth" – internet, blogging and electronic bulletin boards. This is true outside China too, however what is unique to the country is the notable lack of a trusted traditional media to which Chinese consumers can turn to for reliable information. The role of electronic media and one-on-one exchange has taken on astounding importance. How do companies manage reputations under such conditions? The corporate response to this will to a large extent define company behaviour and interaction with external stakeholders in the years to come.

Environment Awareness

With the adoption of the Kyoto Protocol[95] in 1997, environmental degradation and climate change is now front and centre on the global CSR agenda. In China, around the turn of the century, with two decades of the "get rich quick" form of economic development, the country faced large-scale environmental degradation and industrial pollution contributing to resultant public health problems, mass migrations and social unrest.

The environment is a natural driver impelling CSR adoption and practice in China. For example, one estimate by the World Bank notes that damage caused by water and air pollution in China amounted to between 3.5% and 8% of GDP in 2005. In the same year, China invested about RMB 238.8 billion in the treatment of industrial pollution in China, about 1.3% of the country's GDP.[96] The need for the efficient utilisation of natural resources, reduction in energy consumption and energy efficiency are all imperatives pushing the new emerging Asian multinational corporation towards responsible behaviour.

Post-Copenhagen, even ordinary citizens are willing to take on both the private sector as well as SOEs that are environmentally irresponsible. As is amply evident in the narrative below, government, together with private entities like the stock exchange, has introduced several regulations, policy guidelines and reporting requirements pertaining to environmental stewardship, resource use, energy efficiency and pollution, which now obligate enterprises to be environmentally responsible.

Business Community Embraces Social Harmony

Until recently the business community in China had been slow in finding a role for itself in the social responsibility movement. Many saw it as a luxury which they could not afford, more still as a trade barrier restricting competitiveness, or as an unfair cost passed on down the supply chain, and others as adherence to standards and regulations established by MNCs inconsistent with the Chinese reality.

Today, both SOEs and private businesses have embraced CSR as the corporate sector's contribution to social harmony. Increased public and media concerns, numerous laws, regulations and standards introduced in the wake of the harmonious society construct, all are effective drivers for CSR in the country. Advocates of CSR have begun to recognise the important link between CSR and social harmony.

In October 2006, in a conference in Beijing on "CSR and Innovation", the honorary Chairman of the China Daily CEO Roundtable remarked that "the concept of harmonious society is really China's rephrasing of the concept of CSR, sustainable development and human rights in China". He went on to say that China's social and economic burden was "so great that economic development will stop somewhere if we (the business sector) do not try to do something about it."[97]

It is important to reiterate here, that though the concept of CSR first came from abroad and hence… "there is little pressure from the market to implement CSR"[98], with the "harmonious society" construct the government has given it an indigenous hue. In addition, in the Chinese reality, the government is "the" major stakeholder - as a customer, shareholder and an operator of SOEs and government-organised NGOs - and is integral to building a regulatory and operational environment that is conducive to CSR.

The state sets the standards for business and at the same time monitors business practices. In sum, "the government sits at the top of the CSR pyramid in China."[99] The legal framework for an independent private sector is still evolving, albeit rapidly, so the creation of a CSR framework within China is interesting when juxtaposed alongside the rapidly evolving international citizenship regime.

The turnaround from alien Western concept and soft trade barrier to an all encompassing embrace is quite spectacular, as the following pages illustrate.

The Players

It was only in the 1990s that Chinese officials condemned advocates of CSR as promoters of trade protectionism or "values imperialism."[100] Numerous laws, policies, regulations and guidelines have since been issued by several entities in the country.

The China Securities Regulatory Commission, the China Banking Regulatory Commission, Shenzhen Stock Exchange, Shanghai Stock Exchange (re-established in December 1990), and China National Textile and Apparel Council, to name a few, all have formulated guidelines that emphasise the importance - and in some cases, require the incorporation of CSR standards and principles in Chinese businesses' plans.

Public initiatives include corporate law, CSR standards and implementation guidelines, social and environmental information disclosure regulation, and capital market regulations in connection with environmental performance, responsible production standards and responsible investment codes. Viewed collectively, this collective avalanche of indigenous initiatives in China represents a concerted effort to enhance Chinese companies' ability to compete effectively in the global marketplace and protect the growing value of their brands.

In addition, the Chinese government is also now encouraging enterprises to obtain Social Accountability 8000 (SA8000) standard certification to be more competitive globally. The gradual realisation that labour abuses in China not only affect domestic workers, but also overseas Chinese workers, is putting employee health, welfare and occupational safety on the CSR agenda in China.

A. Public Initiatives

China Securities Regulatory Commission

The most notable development for the adoption of CSR in China at the turn of the century was the 2001 Code of Corporate Governance for Listed Companies issued by the China Securities Regulatory Commission and the State Economic and Trade Commission. This was the first ever recognition of the interest of "stakeholders", a remarkably modern text but with little on implementation and enforcement.[101] Chapter 6 of the Code clearly extends CSR's scope beyond labour issues to a broader range of activities, ranging from respect for legal rights of stakeholders to transparency in reporting on operations and financial situation of a company.[102]

The 2006 Company Law

When China first drafted the company law in the early 1990s, CSR was a little known concept. The 1994 Company Law explicitly addressed issues of labour rights and employee rights in Articles 15 and 16 of the law, giving rise to China's first ever stakeholder-friendly legal statute. The revised 2006 Company Law gives explicit recognition to CSR, by requiring companies to adhere to social and business ethics as well as fulfil social responsibilities.

Corporate Income Tax Law

In 2007, a new law for corporate income tax was introduced to raise the permissible level of tax-deductable donations from 3% to 12% of annual profits. This, according to Huang Haoming, Director of the China Association for NGO Cooperation, has the potential of spurring companies to engage with community organisations around their operations.[103]

State-Owned Asset Supervision and Administration Commission (SASAC)[104]

In early 2008, the SASAC issued the "Guiding Advice on Fulfilling Social Responsibility by Central Enterprises". The guidelines call on Chinese enterprises to project a responsible public image and to develop into modern corporate institutions with the competitive advantages offered by effective CSR programmes.

The guidelines encourage SOEs to take responsibility for stakeholders and the environment in addition to turning a profit; encourage employees to volunteer and participate in community and social welfare programmes; and address transparency and stakeholder engagement issues, by encouraging SOEs to publicise and report CSR-related information.

The key components under SASAC's guidelines:

– Ensuring legal compliance;
– Continuously improving profitability;
– Improving product and service quality;
– Resource efficiency and protecting the environment;
– Encouraging self-innovation and technological development;
– Assuring production safety;
– Protecting labour rights and the interests of workers; and
– Engaging in philanthropic activity.

It is interesting to note however, that the Guiding Advice does not include human rights protection as a core component of CSR. This is despite the fact that the SASAC recognises CSR as a new global trend, referring to the UN Global Compact, ISO 26000 and MNC codes of conduct and sustainability reporting. It recognises that CSR principles for Chinese SOEs should be consistent with international trends but also be compatible with the reality in China. As Li-Wen Lin of Columbia University puts it, "A definitional characteristic implied in the state-led Chinese CSR initiatives is that human rights issues are excluded from the scope of CSR in China."[105]

China Banking Regulatory Commission (CBRC)[106]

In November 2007, CBRC released "Recommendations on Strengthening Large Commercial Banks' Social Responsibilities", which require large banks to comply with the ten basic principles of the UN Global Compact. In response, major Chinese banks have established departments to oversee significant CSR initiatives.

In an effort to develop environmentally friendly policies, CBRC issued the Guidelines on Credit Underwriting for Energy Saving and Emissions Reduction[107], which urges banks to combine credit-structure adjustments with national economic structure adjustments, and allow them to contribute to energy conservation, emissions reduction, and environmental protection efforts.

In 2007, CBRC also required the State Environmental Protection Administration (now the Ministry of Environmental Protection) to pass on details of corporate environmental law violators to China's central bank, which blocked or withdrew loans to a dozen such companies.[108]

Ministry of Environmental Protection (MEP)

- "Green regulations" introduced in mid-2008:
- "Green Credit" policy (July 2007) regulating bank lending;
- "Green Insurance" policy (February 2008) regulating insurance companies; and
- "Green Securities" policy (February 2008) regulating China's capital markets.

In July 2007, MEP, CBCR and the People's Bank of China jointly put out the "Opinion on Enforcement of Environmental Law and Prevention of Credit Risks" and the "Green Credit Policy"[109], directing Chinese banks to incorporate environmental performance into credit assessments.[110] In January 2008, MEP agreed to team up with the International Financial Corporation (IFC) to develop guidelines for green credit policy in China. In addition, MEP and other government agencies agreed to jointly develop measures to introduce the IFC Performance Standards and the Equator Principles[111] to China.

Through a series of environmental financial regulations enforced by the MEP in partnership with various financial regulatory departments, the Chinese government enlisted the power of the financial sector to provide incentives and disincentives for their clients' (companies') pollution and energy usage.

Additionally, the government is considering incorporating environmental standards into tax regulations through the "Green Tax" policy, and into trade regulations through the "Green Trade" policy.[112]

The "Green Securities" policy launched in partnership with the China Securities Regulatory Commission (CSRC), aims to make it harder for polluters to raise capital by requiring companies listed on the stock exchange to disclose more information about their environmental record. The "Green Securities" policy was enhanced by the issuance of the "Green IPO" (initial public offering) in June 2008.[113] Under the green securities scheme, companies in 13 high-pollution and high-energy-consumption industries are subject to environmental performance review when applying for IPO or refinancing.

It is important to note that China stands out in the region, as the only country targeting the banking and financial industry with numerous sustainability guidelines. It is not far-fetched to anticipate that the banking sector, dominated by SOEs, can through its financial clout push the CSR agenda down the line to the manufacturing and tertiary sector.

B. Private Initiatives

The measures taken by both the Shanghai and Shenzhen Stock Exchanges (SSE) sit within a wider framework of government policy to harness the capital markets to foster environmentally and socially sustainable private sector development.

Shenzhen Stock Exchange

In September 2006, the SSE released a set of "Social Responsibility Guidelines for Listed Companies"[114] that encouraged listed companies to assume responsibility for social development; the environment and other natural resources; and commit to protecting the rights and interests of shareholders, creditors, employees, customers, consumers, and others involved with their business. The SSE guidelines also encourage companies to regularly evaluate and issue voluntary disclosures about their performance.

Shanghai Stock Exchange[115]

The Shanghai Stock Exchange issued two official documents in May 2008, mainly the Shanghai CSR Notice and the Shanghai Environmental Disclosure Guidelines. The two initiatives encourage companies to assume a leadership role in promoting sustainable development. Shanghai Stock Exchange-listed companies are encouraged to fulfil social responsibilities, address interests of stakeholders, and commit themselves to promoting sustainable economic and social development.

Under the Notice and the Guidelines, certain public companies are required to disclose environmental information in a timely manner to the public, and all companies are encouraged to publish CSR reports in addition to annual financial reports. For listed companies that promote CSR, the Shanghai Stock Exchange offers incentives such as priority election into the Shanghai Corporate Governance Sector, or simplified requirements for examination and verification of temporary announcements, both of which benefit a company's public image.

In December 2008, the Shanghai Stock Exchange further accelerated CSR disclosure by mandating three types of companies to issue annual CSR reports - companies listed in the Shanghai Stock Exchange Corporate Governance Index, companies that list shares overseas and companies in the financial sector.

The Shanghai Stock Exchange has also developed the concept of social contribution value per share (SCVPS)[116] - a new method of measuring companies' value creation. SCVPS is intended to allow the public to understand the value companies create for their shareholders, employees, customers, creditors, communities, and society as a whole. Companies may choose to disclose their SCVPS calculation in their annual CSR reports. The extent to which the SCVPS will meet stakeholder needs remains to be seen.

In 2008, both the Shanghai and Shenzhen stock exchanges published papers on the general importance of CSR for listed companies. In August 2009, the Shanghai Stock Exchange launched the "Social Responsibility Index", selecting the top 100 socially responsible companies listed on the stock exchange. The objective of the introduction of the Index is to "encourage the listed companies to actively perform their social responsibilities, provide investors with a new investment target and popularize the concept of socially responsible investment".[117]

Socially Responsible Investment Funds (SRI)[118]

In May 2006, the Bank of China launched the first SRI fund in China, the Sustainable Growth Equity Fund. In March 2008, the Industrial Management Company launched the IPO of the Xingye SRI Fund to domestic investors in China.

Early in 2008, the Shenzhen Securities Information Company and the Tianjin Teda Company launched China's first SRI index, "TEDA Environmental Protection Index" focusing on the top 40 environmentally responsible companies listed on the Shenzhen and Shanghai stock exchanges.

Fujian Jurisdiction[119]

In 2007, the securities regulatory agency of Fujian Province issued a regulatory instruction requiring listed companies incorporated in the Fujian jurisdiction to publish an annual CSR report along with the annual financial report. In 2008, the agency issued the Guide on Social Responsibility of Listed Companies, specifically directed at Securities and Futures Management Institutions, and Securities and Futures Services Institutions.

C. Industry Initiatives

China National Textile and Apparel Council (CNTAC)

CNTAC[120], a national Federation of all textile-related industries, was established with the aim of modernising China's textile industry and protecting the interests of the industry. Initiated and directly administered by CNTAC, the Responsible Supply Chain Association (RSCA) is an industry-wide professional body that promotes social responsibility, with an aim at utilising resources and strengths of multiple stakeholders to promote CSR-related ideas and concepts and assisting businesses in raising CSR awareness and improving management practice.

In 2005, CNTAC developed its first CSR management standard, a Social Responsibility Management System – the China Social Compliance 9000[121] (CSC 9000T) for the textile industry. The standard enables an enterprise to establish and implement its own social responsibility management system based on China's laws and regulations, international conventions and standards. The goal is to help Chinese factories improve performance and increase their competitive advantage in the international market.

The CSC9000T is not a standard designed for certification, but an evaluation model, whereby the RSCA evaluates suppliers and gives advice on how to improve the company's CSR framework. On the environmental management front the standard encourages companies to follow the ISO 14000 series standards. The standard has received worldwide recognition - the World Bank included the CSC 9000 in its "Key Corporate Responsibility Codes, Principles and Standards as a country specific standard."[122]

More recently, in June 2008, CNTAC issued PRC Textile and Apparel Industrial CSR Reporting Guidelines, which encourage companies to comply with voluntary CSR rules.[123]

Industry Associations[124]

In April 2008, eleven industrial associations (coal, mechanics, steel, petroleum and chemicals, light industry, textiles, building materials, non-ferrous metals, electricity and mining industries) jointly presented the "Social Responsibility Guide of the China Industrial Companies and Industrial Associations". This Guide is regarded as the most comprehensive series of CSR standards in China thus far. The associations have attempted to propose a set of guidelines that incorporate international trends in CSR together with the reality on the ground in the country.

It is amply clear that the plethora of initiatives promoted and sponsored by a variety of entities, in both the public and private domain, are playing a crucial role in raising the awareness of CSR among all stakeholders and encouraging action on the CSR front within the SOEs and the private business community in the country. A World Bank study on "Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study" identifies the government as a main enabler of CSR in the developing countries through mandating, facilitating, partnering and endorsing, essentially playing a catalytic role. This is certainly the case for China.

D. NGO Initiatives

Chinese NGOs – Green Banking Innovation Award

Eight Chinese NGOs[125] in cooperation with Economic Observer (a financial newspaper in China which ranks Chinese banks) awarded the first annual Green Banking Innovation Award in July 2008.[126] The Award gives banks another reason to implement CSR, as it recognises success in improving resource efficiency, encouraging employees to participate in environmental activities, minimising environmental impact through financing activities, exploring new opportunities for environmental improvement-related business, and implementing sustainable finance. The China Industrial Bank Co. Ltd is the first bank to receive this award.

Global Compact Local Network

The Global Compact Local Network China was formally launched on 20 April 2009 as an independent organisation with formal legal registration. The Global Compact was first introduced to China in December 2001 by the China Enterprise Confederation with the cooperation of the UNDP and the Global Compact office. Chinese companies have been engaged in the Global Compact from its inception, and as of April 2011, there were 175 Chinese businesses registered, of which 134 are active participants.[127]

Other independent endeavours include the Chinese Committee for Corporate Citizenship, the China Business Council for Sustainable Development, the Chinese Federation for CSR and active affiliations with international initiatives like GRI and ISO 26000.

Current Status

ISO 26000 Spotlight: Labour Practices

China has not ratified the ILO Core Conventions 87 and 98 on freedom of association and the right to collective bargaining. It has ratified conventions 138 and 182 to ban and eliminate child labour. There have been repeated reports in the Chinese media about child labour, however it continues to be common particularly in rural areas, where the material resources necessary to provide children with an adequate education are often lacking.

The conventions banning forced labour (29 and 105) have not been ratified. Forced labour in the context of prison work and re-education through labour are officially sanctioned; trafficking in women and children for the purpose of forced labour and forced prostitution is a widespread problem at the provincial level and frequently covered in the media. China ratified ILO conventions 100 and 111, which ban discrimination in respect of employment and occupation, and passed laws in support of those bans; however, there are substantial gaps between the letter of the law and actual practice in certain regions and economic sectors.[128]

Of the top 5 most capitalised companies, Industrial and Commercial Bank of China stands out, for having placed importance on the career development problems of middle-aged employees. For certain middle-aged employees whose knowledge and skills have become outdated and who have difficulties in adapting to different positions, the Bank provides guidance and assistance programmes for their career transition to help them adjust and adapt to their positions.[129]

The “China CSR Survey 2006” conducted by Beijing University’s Market Economy Academy with responses from 890 companies, reported that the Chinese enterprise still saw CSR as “the domain of multinational corporations” and that CSR efforts were primarily charitable and had nothing to do with corporate strategy.[130]

ISO 26000 Spotlight – Environment

The coverage and extent of China's environmental laws is substantive. Beyond the comprehensive Environmental Protection Law, other legislative provisions include laws on the Prevention and Control of Pollution From Environmental Noise, Prevention and Control of Environmental Pollution by Solid Waste, Prevention and Control of Atmospheric Pollution, Prevention and Control of Water Pollution and the Marine Environment Protection Law.

In addition, several policies have been issued in the areas of Prevention and Control of Air Pollution, Noise and Vibration Management, Hazardous Chemicals Management, Environmental Impact Assessment and Pollution Discharge and Levying. In 2007, China's government also released the 11th Five-Year Plan for Environmental Protection.[131]

However, pollution and climate change issues have overshadowed any improvements that might have been made, with the problem being immediately evident to any casual visitor to China. The unwillingness of the country to compromise on targets for the Copenhagen Accord has also not gone unnoticed.[132]

Account Ability and Fortune China – CSR survey[133]

AccountAbility and Fortune China have partnered, annually since 2007, on surveying the Chinese landscape on CSR and business' real understanding of CSR in practice via their Managerial Survey on Corporate Responsibility.[134] The surveys for the period 2007-2010 throw light on the steady change in perspective towards CSR adoption and implementation.

Over the four surveys, response to the question, "social and environmental responsibility can improve business performance in the long term?" increased from 67% of the respondents replying in the affirmative in 2007 to 90% in 2010. The surveys reveal that China's managers are refining their CSR priorities with "environmental protection and resource savings" and "high quality products" being the two most important CSR activities. "Observance of business ethics" moved from eighth place to third in 2008 from a year ago, and continues in third place thereafter. Caring for employee health and workplace safety and security followed in fourth and fifth place in all four years.

ISO 26000 Spotlight – Fair Operating Practices

Though the Chinese government has more than 1,200 laws, rules, and directives against corruption, implementation is spotty and ineffective. The odds of a corrupt official going to jail are less than 3%, making corruption a high-return, low-risk activity. Even low-level officials have the opportunity to amass an illicit fortune of tens of millions of yuan.

The amount of money stolen through corruption scandals has risen exponentially since the 1980s. Corruption in China is concentrated in sectors with extensive state involvement, such as infrastructure projects, real estate, government procurement, and financial services. The absence of a competitive political process and free press make these high-risk sectors susceptible to fraud, theft, kickbacks, and bribery. The direct costs of corruption could be as much as $86 billion each year.

China's corruption also harms Western economic interests, particularly foreign investors who risk environmental, human rights, and financial liabilities, and must compete against rivals who engage in illegal practices to win business in China.[135]

Of the top 5 most capitalised companies, Sinopec stands out, having introduced integrity culture into contracts and required relative parties to sign anti-corruption agreements. At the beginning of 2007, the Company stipulated and released the Provisions on Signing Integrity Documents, requiring relevant departments to sign Integrity Documents with the foreign parties in transactions including engineering construction, procurement, sales, property right etc.

To supervise the decision-making process for large amounts of money involved in procurement, sales and engineering construction, Sinopec Corp. tried out online disclosure mechanisms such as including real-time online disclosure, patrols in different cities by specialised supervision teams and limited authorities at different levels.[136]

The question "when undertaking more social responsibility which area, do you think, is the highest priority?" highlighted three issues. Integrating social impact and corporate strategy topped the list (75% in 2009), followed by improvement in company management/governance (69% in 2009) in second place and strengthening social and environmental impact management in third place (61% in 2009).

Chinese companies are increasingly engaging with a range of stakeholders. Consistently, since 2008, customers, investors and local governments are seen as the three key stakeholders with close to or over 80% of respondents choosing these three. The central government, business partners and competitors follow in that order. Trade associations, environmentalists and the media are further down the priority list.

Community engagement and social interventions are low on the priority list, though in 2008, 54% responded in the affirmative to corporate donations made to charity.

Nevertheless, there is a gap between intent and action. Only 18% of respondents to the 2008 survey[137] thought Chinese companies addressed the social and environmental effects of their operations, whereas 86% held the view that if they were responsible for the CSR portfolio, they would undertake more social and environmental responsibility. In addition, as is evident from the Shanghai Stock Exchange statistics, few enterprises publish CSR reports and still fewer seek third party assurance.[138]

Business leaders acknowledge that the lack of awareness and knowledge of CSR practices is the major obstacle to operating in a more socially responsible way.[139] Another equally important obstacle is the lack of knowledge and awareness of the multitude of CSR laws, regulation and guidelines. The lack of best practices and the scale of business operations are cited as obstacles to socially responsible behaviour as well.

Moving Forward

So what are the CSR drivers in the Chinese business landscape? Dominated by SOEs, corporate China still has the government at the top of the economic growth pyramid. In addition to the numerous CSR codes and guidelines outlined above, the major political driver is the "harmonious society" construct. This is a classic state-led goal, making CSR unavoidable and in some ways obligatory for all Chinese enterprises.

The state is a major stakeholder in China - it is involved as a customer, a shareholder and an operator of SOEs and government-organised NGOs. The government is also integral to building a regulatory and operational environment that is conducive to CSR. The State sets the standards for businesses operating in the country and monitors business practices. In sum, "the government sits at the top of the CSR pyramid in China."[140]

As elsewhere in Asia, globalisation, multinational business partners, global consumer pressures, developed country laws and regulations are often cited as drivers of CSR. In China, the public, consumers, NGOs and local communities and other stakeholders as yet have limited influence on sustainability reporting. Domestic consumer and public pressure, as demonstrated by the reaction to the Sanlu milk scandal and the aftermath of the Sichuan earthquake, though beginning, is still weak. Furthermore, often companies publishing CSR reports only offer the public abridged versions or allow only government authorities and supervisory organisations access to them.

A 2007 Study of Sustainability Reporting in China published by SynTao[141] concludes that most companies view CSR as part of their government relations package. Other characteristics such as SRI, institutional investor interests and non-financial stakeholders are slow in coming. International NGOs with a limited presence in the country are weak internal drivers, though engagement with bilateral and multilateral institutions and developed country industry associations (such as the various chambers of commerce) are changing the level of CSR understanding and commitment.

In the developed world, NGOs have been a key driver of CSR – as critics of irresponsibility, as agenda setters, and more recently as partners with business. In China, the aftermath of the Sichuan earthquake revealed the positive role that community organisations could play, galvanising individuals as well as community groups in a way never before seen in the country. Nevertheless, the underdeveloped nature of

NGOs in China is often identified as a factor that limits the development of CSR in the country.[142]

In addition to the government, state bodies and private entities cited above, newly established business networks (Chinese Federation for CSR, CSR Forum of China), CSR consultancies (Syntao), international resource organisations (Business for Social Responsibility, International Business Leaders Forum, World Business Council for Social Development, Global Leadership Network, Deutschen Gesellschaft für Technische Zusammenarbeit), and domestic resource organisations (CSR in China, China Dialogue, CSR Asia), are all contributing to promoting CSR learning.

Despite the extensive efforts by both public and private entities in China, according to the China Academy of Sciences, "China's Corporate Social Responsibility Report 2009", close to 40% of China's top 100 corporations are CSR bystanders.[143] Another 20% are in the "start stage of CSR", therefore leaving only two-fifths of companies at varying stages of CSR adoption.

Nevertheless, whatever the statistics, with the Chinese government taking on the role of promoter of CSR, the question for companies in China is not whether CSR issues need to be addressed, but how to address them in the most effective way. In addition, institutional initiatives as enumerated above, are prescriptive in their approach with an eye towards regulation, and this will push the business environment towards greater accountability.

With the "harmonious society construct", the SOEs are leading the charge in the CSR sphere. As SOEs are closely aligned with the political power structure in the country, it will be interesting to see if the CSR movement in China will be fundamentally different from elsewhere in Asia. China is trying hard to encourage the role of the private sector, and the post-Sichuan earthquake civil society response has the beginnings of a consumer movement. With these changes afoot, the trajectory the CSR movement takes will be something to watch for in China.

Or as the second largest economy in the world, will China define the future of corporate citizenship? As Christopher Pinney, of the Boston College Center for Corporate Citizenship, puts it "…the Chinese government has high expectations of western multinationals" as "well over half of China's trade is conducted by foreign firms operating in China, and it is their actions and those of their Chinese suppliers that account for much of China's commercial image abroad".[144]

It is interesting to note that most of the current CSR discussions in China focus on domestic companies or operations of foreign companies in China. As Chinese overseas investment expands significantly, the non-economic aspects of overseas business activities are beginning to attract attention. From the standpoint of global competitiveness, Chinese overseas corporations have to be concerned with the environmental and social impacts of their business operations and practices in order to develop a positive corporate image in the global marketplace. This is very akin to the "make over" undertaken by Western MNCs in their overseas operations in the wake of the scandals that plagued them in the late 1980's and early 1990's.

8 INDIA

Discourse Over Action

Abstract

In modern India, the primary historical drivers of philanthropy have been a sense of ethics and a long history of cultural and religious giving. Older forms of charity exist, side-by-side with more modern strategic philanthropy and corporate citizenship. The expectation that business could contribute to society first arose with the participation of Indian industry in the fight for independence starting in the late 19th century. Around the same time, Gandhi developed the notion of "trusteeship", whereby owners of capital were urged to voluntarily manage their wealth in the public interest.

The Tata group has long been the benchmark for community engagement, philanthropy and social responsibility in India. As Jehangir Ratanji Dadabhoy Tata, Chairman of the Tata Group from 1938-1991 believed, "We generate wealth for the people. What comes from the people must, to the extent possible, therefore get back to the people."[145]

India's post-independence experiment with a mixed-economy and the "license raj" saw a state-led effort in both the industrial and development domains. The failure of this experiment moved India to embark on a liberalisation program in the early 1990s, that has today seen it emerge as one of the BRIC (Brazil, Russia, India and China bloc) nations.

The Union Carbide disaster in Bhopal and a few other incidents globally fuelled the activist and advocacy agenda of international NGOs, so too was it a watershed in the role of civil society groups in confronting the excess of business and government in India.

In India, the main driver for CSR has clearly been the limited capacity of the state to deal with the current socio-economic challenges facing the country. In addition, an opening up of the economy by adopting the liberal Anglo-Saxon market-oriented policies, a competitive labour market and a rising civic awareness at home together with the global demands for a responsible supply chain, greater disclosure and transparency in governance are factors that are driving the adoption of CSR in India.

Brand-image, reputation, customer loyalty and other oft-cited drivers in the developed world have still to make a mark in the fast changing consumer and business environment in India. Aspirations of being a global player however will

slowly move these CSR drivers upstream as benefits of responsible corporate behaviour accrue. More difficult to quantify (and hence yet to be seen as reasons) are factors such as improved financial performance, increased sales and lower operating costs.

Background

– Gross Domestic Product: $1,729 Billion US dollars (at current prices).
– Population: 1170.94 million people.
– Gross National Income (based on Purchasing Power Parity international dollars): $1,340.
– Number of businesses actively communicating on their progress as UN Global Compact signatories: 102.[146]

Historical Context

In modern India, the primary historical drivers of philanthropy have been a sense of ethics and a long history of cultural and religious giving. Older forms of charity in ancient Indian mercantilist society took the form of building and supporting temples, pilgrim rest houses, night shelters, bathing platforms, water tanks, wells and drinking water facilities. Indian merchants donated to education in traditional schools and provided dowries for poor girls. They provided relief in times of crisis such as famines or epidemics, throwing open warehouses of food and treasure chests.

This practice of giving has continued through the ages, and business has responded to changing socio-cultural needs and evolving economic, political and social conditions. In the early stages of industrialisation starting around the mid-19th century newly-rich business families in India set up trusts and institutions such as schools, colleges, hospitals, orphanages, art galleries and museums. Older forms of mercantilist charity continued alongside, even as the more modern enlightened business communities led by Jamsetji Nusserwanji Tata, Sir Dinshaw Petit and Premchand Roychand introduced newer and more Western trends of philanthropy and social responsibility.

Around the same time that American millionaire Andrew Carnegie established public libraries in the US and Scotland, Indian entrepreneur and industrialist Jamsetji Tata established the J.N. Tata Endowment in 1892, to offer scholarships to deserving Indian students for education overseas. In 1912 a donation by Sir Ratan Tata, Jamsetji Tata's son, to the London School of Economics (LSE) established a research unit that is today the Department of Social Sciences at LSE. The Sir Dorabji Tata Trust went on to promote the Tata Memorial Centre for Cancer Research and Treatment, the Tata Institute for Social Sciences and the Tata Institute of Fundamental Research, all prestigious institutions to this day.

The expectation that business could contribute to society first arose with the participation of Indian industry in the fight for independence starting in the late 19th century. Around the same time, Gandhi developed the notion of "trusteeship", whereby owners of capital were urged to voluntarily manage their wealth in the public interest. It was around the same time that J.N. Tata, founder of the Tata group, said: "In a free enterprise, the community is not just another stakeholder in business, but is, in fact, the very purpose of its existence."[147]

Over the first half of the 20th century, the Tata's instituted path-breaking social welfare provisions, labour standards, workers compensation and gratuity and pension for their employees, long before they became statutory in the West.[148] The Tata group pioneered labour welfare measures such as the eight-hour working day (in 1915), establishment of welfare departments (1917) and ensuring maternity benefits (1928) to name just a few, even before these were enforced by law.

These have since either been set as best practice standards or formed the basis of legislation in India. Today, large Indian business houses appreciate the wisdom of Mr. Tata's words, recognising that to become players of first world magnitude they must address the developmental challenges at home.

Around the time of the struggle for Indian independence, other businesses houses had emerged. Industrialists like G.D. Birla, Jamnalal Bajaj, Lala Shri Ram and Ambalal Sarabhai all followed in the footsteps of J.N. Tata by establishing educational institutions, supporting the arts and at the same time contributing handsomely to the freedom struggle and nationalist movement.

Political Context

I am writing on CSR in India at a time when corporate and public life in India is beleaguered with allegations of corruption and malpractice. The telecoms scandal, involving billions of dollars in losses to the country's exchequer threatens even to implicate the house of Tata's. This comes close on the heels of the international embarrassment and fraud allegations with regard to the Commonwealth Games hosted in New Delhi in 2010.

Not surprisingly, India ranks 87th (with a score of 3.3 out of 10) among 178 countries in Transparency International's 2010 Corruption Perceptions Index.[149] The index shows that nearly three quarters of the 178 countries in the index score below five, indicating a serious corruption problem. Further, India a signatory to the UN Convention against Corruption[150], has still to ratify the convention. The anti-corruption fight, lead by Anna

Hazare in August 2011 for the passage of a Jan Lokpal Bill (Citizen's Ombudsman Bill), has seen unprecedented support from the general public.

International media too, is now writing on the incidence of corruption in India more often. In March 2011, The Economist has carried an article titled "Corruption in India – A million rupees now"[151] and likewise a Financial Times article with the heading "Writing on the Wall"[152], warned that the country may be following Russia in developing a crony capitalism dominated by powerful insiders.

Against such a background it is tempting to ask "Whither corporate responsibility now?" A Harvard Business School and University of North Carolina study on the impact of economic reforms shows that companies present before the liberalisation phase continue to control a far larger portion of the economy than newcomers. Brahma Chellaney[153] believes, "The capability of big business to influence policy now is much greater than it was prior to 1991." He adds, "There is a growing relationship between oligarchic business structure and its impacting and shaping of Indian politics… This is a trend which has been in the making for a long time now."[154]

The corruption and malpractice in the Indian political and business environment has its roots in the post-independence "license raj" where the government's socialistic policy agenda, aimed at a more equitable distribution of resources, resulted instead, in the concentration of wealth and industry in the hands of a few industrialists through strategies of import substitution, industrial licensing, raw material and production quotas and reservations for small-scale enterprises.

Further, state control of the "commanding heights" of the economy – core and strategic industries: oil, power, infrastructure, defence, to name a few – only facilitated corruption at the state and national level. As a result, private corporate responsibility was limited to religious giving, community charity and philanthropy. On the other hand, state-owned enterprises, also known as public sector undertakings (PSUs) in India were mandated to undertake community and development initiatives in the vicinity of their operations. In addition, a good proportion of the public sector employees are unionised and occupational health and safety came under the union's purview.

On the eve of India's independence in 1947, just 18 families owned almost every company in the country. Fifty years later in 1997, despite government policy and rules, and in stark contrast to the intent of the socialistic ideology, 461 of the 500 most valuable companies in the country were still controlled by families.[155]

Development of CSR

Exhibit 8.1: CSR Timeline of India

Date	Milestone
1892	Indian entrepreneur and industrialist Jamsetji Tata established the J.N. Tata Endowment to offer scholarships to deserving Indian students for education overseas.
1915-1928	Tata Group pioneered labour welfare measures such as the eight-hour working day, establishment of welfare departments and ensuring maternity benefits, even before these were enforced by law.
1984	Chemical disaster at the Union Carbide plant in Bhopal.
1991	Green product standard Ecomark founded.
1994	Carpet certification standard Rugmark founded.
1995	Federation of Indian Chambers of Commerce and Industry set up the Socio Economic Development Foundation to provide an institutional base to help adopt CSR as a strategic tool.
1995	Confederation of Indian Industries set up the Social Development Council in 1995, to ensure corporate participation in social development.
2001	Confederation of Indian Industries, in partnership with UNDP, set up the India Partnership Forum to promote a multi-stakeholder approach to CSR.
Nov 2003	The Global Compact India Network is formed.
May 2007	At the inaugural session of Confederation of Indian Industries Annual Summit, Prime Minister Manmohan Singh challenged corporate India to respond to the need to make the growth process more inclusive.
2008	National survey on corporate social responsibility practices in India amongst leading business and corporate houses and public sector organisations commissioned by the Times Foundation.
Dec 2009	Ministry of Corporate Affairs announced the Voluntary Guidelines for Corporate Social Responsibility, intended to encourage best practices in corporate governance and corporate social responsibility, representing the first ever policy guideline offered by the central government.

Feb 2010	Federation of Indian Chambers of Commerce and Industry launched the Aditya Birla CSR Centre for Excellence.
Feb 2011	As part of the discussion on the revision of the Companies Bill 2009, the government announced it was considering mandating that companies earmark 2% of the net profit of the preceding three years for CSR activities and inform shareholders about the policy adopted to meet that requirement.

When it comes to the development of CSR in India, it is often claimed that India has been in the forefront of corporate citizenship and needs no introduction to CSR.

As in the case of the first generation of industrialists under British colonial rule, self-enlightened businessmen practiced and advocated ethical and responsible behaviour and debated issues of social responsibility of business and stakeholder engagement through the three decades of the "license raj". The 1970s saw a revival in corporate interest in social concerns as the common man was disillusioned over the government's inability to provide for basic needs and as it presided over an unprecedented increase in the levels of poverty and deprivation in the country.

In 1981, A.F. Khan[156] in a survey of senior executives at companies in Delhi and its vicinity, found that 98% considered the social responsibility of business to encompass quality control; product improvement and innovation; employment and training; contribution to education; and air and water pollution. Issues like urban renewal and development, wider environmental issues and community development and culture did not figure on their horizon.[157]

Similarly, a 2005 survey conducted by Partners in Change reported that only 17% of the companies surveyed in India had written CSR policies while more than 80% of the surveyed companies claimed to engage in CSR.

Despite varied assertions to engagement in CSR, India's CSR approach continues to be largely externally-oriented, i.e. traditional philanthropic contributions and a variety of community development initiatives not necessarily aligned with a company's core competencies.

The Evolution of Civil Society's Voice in India

At the time of independence, civic participation in India could be said to be at its peak. The freedom struggle and nationalist movement had united disparate groups of people from all walks of life, all religions and communities against British colonial power. The fight for independence also saw women come out into the public sphere for the first time, as equal partners. Post-independence, as the state took the lead in industry and development, the country saw civic participation recede, but saw the emergence of the welfare NGO in the 1960s.

In the 1970s, following the poor economic performance of the post-independence mixed-economy experiment and the rise in poverty levels, NGOs began to be seen as implementers and service-providers and the government supported them through grants. In addition, bilateral and multilateral aid agencies disappointed by the ineptitude and corruption of the national and state governments turned to civil society groups to deliver development assistance directly to the intended beneficiaries. These partnerships raised the institutional capacity of these groups and also gave this sector a larger voice in development decision making.

Just as the Union Carbide disaster in Bhopal in 1984 along with a few other international incidents fuelled the activist and advocacy agenda of international NGOs, so was it a watershed in the role of civil society groups in confronting the excess of business and government in India.

According to Atul Sood[158] and Bimal Arora[159], in the 1980s the decline in the Soviet empire in Eastern Europe and the now-discredited leftists in India, saw the emergence of a new grassroots movements not only in rural India but, "(t)he new activists largely came from the urban middle classes and defined their exploitation and oppression, and the system that generated these, in newer terms."[160] Further, the new movements were concerned with a whole range of issues including education, health, environment and consumer rights. As they conclude, "Thus in the 1980s, a paradigm shift in thinking on strategy toward social intervention occurred in India."

At the same time, given the dismal performance of India on the UN Human Development Index through the 1980s and much of the 1990s, business and industry associations were increasingly expected to contribute more towards social development and to engage more constructively with poor communities to bridge the ever-widening income gap.

Certifications, Standards and Codes of Conduct

India Inc.'s track record on enforcing certifications, standards and statutory requirements is hardly exceptional, despite the fact that there does exist quite an extensive list of certifications, standards and codes with regards to product quality, responsible production, waste disposal, labour, operational health and safety, working hours, compensation, freedom of association and collective bargaining and even legislation pertaining to labour rights and the environment.

The Bureau of Indian Standards[161] (BIS) was established in 1987, through an Act of Parliament, with a broader mandate and wider powers than the Indian Standards Institution (set up in 1947) that it replaced. BIS is responsible for a host of activities - standards formulation, certification (product/systems), laboratory services, consumer related activities, promotion of standards and codes, training services, information services and engagement with international standards bodies. As of July 2004, over 1,100 products have been certified for product quality standards by BIS and 16,000 licenses have been issued to companies meeting these standards.[162]

Other indigenous certification schemes such as Ecomark[163] (1991), Rugmark[164] (1994) and fair trade labeling have had limited success as most come with market-based voluntary frameworks.

Labour

Traditionally in India, the central government enacts labour legislation and the state governments assume responsibility for implementation. In addition, states are also authorised to enact laws on all aspects of labour. This dual structure has prevented the creation of a unified labour policy, resulting in a multiplicity of labour laws, non-uniformity of definitions and standards and disputes over implementation, all of which have added to the complexity and ineffectiveness of labour legislation.

A large number of labour laws were enacted in independent India to operationalise the constitutional vision of social justice and equity. However, the plethora of laws has done just the opposite with the absence of enforcement and centre-state inconsistencies. There are currently 40 labour laws of significance in the country, which are progressive and guarantee the protection of labour rights. For example, unbeknownst to the causal worker, the Factories Act 1948 applies to all workers, including contract and piece rate workers, and being registered under the Factories Act is not a prerequisite for coverage under most laws.[165]

Trade unions, another key actor within civil society, have not been effective in defending labour rights and holding businesses to national and international labour standards. The participation of industrial labour in the struggle for independence secured an institutional role for organised labour in Indian politics thereafter. The trade union movement hence evolved as a counter-veiling power to the state-led planned economy. Organised labour thus became politicised, becoming an electoral vehicle with different trade unions backing various political camps. This prevented the labour movement from forming a united front against first, state-led industrialisation, and now corporate might.

In India, however, organised labour formed only 8% of total employment through the last two decades.[166] With the advent of economic liberalisation in 1991 and the resultant emphasis on privatisation and integration with the international economy, there has been a deunionisation of industry. In fact, there has been a transfer of production from unionised to informal non-unionised workforces such as temporary, casual and contract labour and home-based workers.

Such a change had already begun in the 1980s, but technology and globalisation has only accelerated and further weakened the rights of workers and their bargaining capacity. At the same time, there is a view that managerial rights are on the rise. This vast army of labour does not have any institutional mechanism to negotiate fair wages, working conditions, health or pension benefits. With no institutionalised state social security system, this group essentially has no representation at the management or governance table.

Liberalisation and economic reforms are in fact trying to dilute existing labour laws and standards, as the corporate sector perceives workers' rights as an obstacle to competitiveness in the global economy and to attracting foreign direct investment.

Environment[167]

In India, the environment first appeared on the governments' agenda after the United Nations Conference on the Human Environment held in Stockholm in June 1972. The conference placed the issue of the protection of biosphere on the official agenda of international policy and law and is seen as the turning point in international efforts to bring the environment into the economic growth equation, as it did in India.

At the conference, the then-Prime Minister of India Mrs. Indira Gandhi said, "The natural resources of the earth, including the air, water, land flora and fauna and especially representative sample of the nature ecosystem must be safeguarded for the benefits of present and future generations through careful planning or management, as appropriate... Nature conservation including wildlife must therefore receive importance in planning for economic development."[168]

To comply with the principles of the Stockholm Declaration the Government of India through the 42nd Constitutional Amendment Act, 1976, inserted a provision for the protection and promotion of the environment, by the introduction of Article 48-A and 51-A(g). With this, judicial activism came to India and a new approach to remedy the problems of the public at large started through the introduction of public interest litigation.

The Water Act, 1974 was the first legislative initiative to address environmental issues at the national level. The Central Pollution Control Board and the State Pollution Control Boards were set up under this act.[169]

In order to have a uniform policy on environment and forest management, the Government of India set up the Ministry of Environment and Forests in 1980. The 1980s witnessed the creation of many eco-specific regulations. In 1980, the Forest (Conservation) Act was passed for the conservation of forests and to check on further deforestation. The government also adopted the new National Forest Policy in 1988 with twin objectives, to protect the forests and to consider the needs of the forest dwellers.

In 1981, the Air (Prevention and Control of Pollution) Act was passed. In addition, a notification relating to Noise Pollution (Regulation & Control) Rules was made in the year 2000 with the objective of maintaining ambient air quality standards in respect of noise.

In the wake of the Bhopal gas tragedy, the Government enacted the Environment Protection Act (EPA), 1986. The laws that existed prior to the enactment of the EPA essentially focused on specific pollution (such as air and water). The need for a single authority which could assume the lead role for environmental protection was answered through the enactment of the EPA. It was designed to provide a framework for the central government to coordinate the activities of various central and state authorities established under previous laws.

Apart from legislation, several notifications and rules were introduced, some of which include the Hazardous Wastes (Management and Handling) Rules in 1989, the Biomedical Wastes (Management and Handling) Rules in 1998, Recycled Plastics

(Manufacture and Usage) Rules 1999, Environment (Silting for Industrial Projects) Rules 1999 and the Municipal Solid Wastes (Management and Handling) Rules in 2000. In addition to meeting its international obligations under the Convention on Biological Diversity, the Government of India has enacted the Biological Diversity Act, 2002.

The above list is not exhaustive, but gives us a glimpse of what exists on the books. Clearly there are many statutory requirements and sufficient guidance for a company to act responsibly and operate sustainably. However, a state of the environment report[170] prepared as per United Nations Environment Programme (UNEP) guidelines and taking into account the five priority areas of land degradation, biodiversity, air pollution, management of freshwater resources and hazardous waste management, does not paint a very complimentary picture.[171]

Corporate Management and Governance

In the developed world, business enterprises have gradually outgrown the limits of family control and have developed into corporations with widely dispersed shareholding and professional management.[172] In India, the dichotomy between corporate ownership and management has yet to be established.

Currently, the majority of private sector companies continue to be controlled by families or groups. Major decisions regarding investment, expansion, diversification, hiring of senior personnel continue to be made within the closed ownership circle. In such a scenario, transparency, accountability and ethical governance, all components of CSR, are a function of how independent and effective the management boards of such companies are.

Following the Asian financial crisis in 1997 and the global crisis in governance epitomised by the Enron and WorldCom debacle, the issue of corporate governance has acquired prominence among industry associations in India. It has also been taken up by the Securities and Exchange Board of India and the National Stock Exchange of India and the Bombay Stock Exchange, as illustrated by the introduction of Clause 49[173] in the Listing Agreement between a company and stock exchange.
However, as Sood and Arora point out the focus is only on appropriate management and control structures of a company, rules relating to power relations between owners and the board of directors, and the management and auditors. The only stakeholders addressed are the shareholders. The other equally important stakeholders – employees,

creditors, customers and the community – do not get a mention. Not surprisingly, there is an absence of a significant community of shareholder or investors to voice their opinions on corporate practices in India. Shareholder activism has yet to come to India.

Waste Management

Despite all these efforts, one example of clear lack of will to step up to corporate responsibility has been the fact that world-class recycling technology has yet come to India, all because it still has no laws with teeth to require this. In India and similarly elsewhere in the developing world, large global corporations, both domestic and international, persist with cheap-and-dirty practices that most of the US and EU countries stopped tolerating over a decade ago. Although collection and processing of recyclable mechanisms have been tried and tested in North America and Western Europe, social conscience is sacrificed for profits. As a result, cash-strapped municipalities have to pick up after them, and consumers pay, in health or filth or city taxes, for the problems created by business apathy.

India for decades had a robust system of recycling glass bottles for soft drinks. Yet, today, the 250-ml returnable glass bottles have been replaced with PET bottles, with not a word about take-back or recycling. What is most disturbing is that there has been little or no reaction whatever at the national or state level, by government or consumers, to require the introduction of take-back schemes. There is need for new legislation and market strategies in the Indian context to promote product stewardship, producer responsibility and waste minimisation. Lessons can be drawn and adapted from legislation around the world, such as California's deposit-return systems, or Mexico's requirement that 50% of Coca Cola be sold in re-usable bottles, and from market strategies like "lotteries" using ring-tabs on PET bottles to bring in post-consumer waste.

The Financial Sector – a Sector Slow to Respond

In India, the financial sector is relatively behind other sectors in understanding its role and responsibilities in advancing sustainability. The sector still sees social responsibility as energy efficiency within the bank premises, recycling and other such modest initiatives. A 2008 doctoral research highlights that, "There is certainly a lack of awareness of the Equator Principles[174] in India. Leading banks are vaguely conscious of the guidelines, however, the public sector is waiting to be led by the Reserve Bank of India and the private sector banks seem to only want to commit if there is regulation or financial incentive."[175]

Weak Consumer Voice

Indian consumers bear some responsibility for the failure of businesses to declare their commitment to environmentally and socially responsible business. The lack of interest on the part of the consumer and also the absence of a strong consumer rights movement are in large part responsible for the slow uptake of socially responsible behaviour of business. "The difference between the US market and the Indian one is that 99% of American consumers are aware of their rights while 99% of Indian consumers don't know," says Ashim Sanyal, of Consumer Voice, a 27-year-old consumer rights outfit headquartered in Delhi.[176] In addition, there is a general mistrust of voluntary industry initiatives as accountability and enforcement are negligible.

In Asia, most civil society groups would much prefer legally binding rules for corporations, be it at the national or the international level. Even the business sector in Asia, as expressed repeatedly in surveys, is looking to the government to provide guidance on CSR, build capacity and promote an enabling environment to undertake such initiatives. However, industry invariably cries foul the minute they see a hard legislation on its way, as in the case of proposed 2% "CSR tax" in India.

The Opening of the Economy in the 1990s

The 1991 liberalisation of the Indian economy seems to be the watershed in the CSR journey of Indian companies. The increased profitability that came with globalisation and the opening up of the economy was instrumental in raising the willingness and ability of Indian businesses to give. This also coincided with the increase in global civil society's and government's expectations of business. The pressure to participate, adopt and respond to such global initiatives as the UN Global Compact, GRI-G3, ISO 26000 has, if nothing else, pushed Indian industry and the business community to articulate and formulate clear CSR strategies.

Large Indian multinational companies have in some aspects adopted international standards as formulated by global coalitions, for example, the Global Sullivan Principles of Social Responsibility, the Global Reporting Initiatives Sustainability Reporting Guidelines and the UN Global Compact, in response to global expectations of responsible behaviour. However, pressure to act on intent is negligible, and the enforcement of commitments made is weak.

The Players

A. Public Initiatives

The Indian government has been slow to chart out a definitive voice in the CSR movement in the country. In 2004, Sachin Joshi[177] of the Centre for Social Markets said that the Indian government "…has yet to get to grips with policy on corporate responsibility, although there are some encouraging signs." In May 2007, at the inaugural session of Confederation of Indian Industries Annual Summit, Prime Minister Manmohan Singh challenged corporate India to respond to the need to make the growth process more inclusive. He said, "We need a new partnership for inclusive growth based on what I describe as a Ten Point Social Charter."[178]

In addition to the commonly described CSR initiatives of environment, social and governance, the Prime Minister urged the corporate community to act on corruption, excessive corporate compensation, affirmative action and socially responsible media and advertising. He went on to say that the list was not exhaustive, and that each company must add on or adopt other measures as deemed necessary in every unique situation.

Several years on, with little response from India Inc., at the conclusion of the first India Corporate Week in December 2009, the Ministry of Corporate Affairs issued guidelines intended to encourage best practices in corporate governance and corporate social responsibility, as the first ever policy guidelines offered by the central government.

The Voluntary Guidelines for Corporate Social Responsibility[179] were introduced with the intent to encourage Indian corporations to acknowledge the need for observance of CSR. The guidelines set out six core elements for companies to address: stakeholder engagement; ethical management and governance; respect for workers rights and welfare; respect for human rights; respect for the environment; and social and inclusive development within the community.

The implementation guidance recommended by the Ministry requires a company to provide an implementation strategy, allocate specified amounts from the company budget for CSR activities, share experiences and network within the industry to encourage responsible business practices, and disseminate information on CSR policy, activities and progress in a structured manner to all stakeholders through annual reports, websites and other communication media.

In March 2010, then Corporate Affairs Minister Salman Khurshid, keeping in mind the "implementation guidance" of the Voluntary Guidelines surprised the Indian business community by announcing that CSR could become law if companies did not step up their social responsibility footprint.[180]

In February 2011, as part of the discussion on the revision of the Companies Bill 2009, the government announced it was considering mandating that companies earmark 2% of the net profit of the preceding three years for CSR activities and inform shareholders about the policy adopted to meet that requirement.[181] Industry groups in India are (as expected) against the proposal, as it is seen as a precursor to a larger CSR tax or levy in the future. Most companies believe that allocations for CSR should be a voluntary obligation on companies.

There is, however, a wide gap between the rhetoric of corporate India and the actions of companies on the ground. Indian multinationals looking to have a global presence and global influence are quick to be seen to adopt international standards and benchmarks to be eligible to raise capital in the international financial markets, compete for market share and build brand equity and reputation. However, few have really embraced CSR intrinsically over several fronts - in internal operations, at the management and governance level and over the wide spectrum of stakeholders. The number of companies filing sustainability reports according to the GRI framework as still few and far between, with just eight Indian companies as of 31 August 2011.

B. Industry Initiatives

In India, the formation of national, regional and local chambers of commerce and industry goes back more than a century. The Bengal National Chamber was the first Indian Chamber established in 1887, representing the interests of Indian industrial and commercial interests, under British rule. These industry players are now mobilising industry participation in social and environmental issues. On the CSR front, numerous centres of excellence have come up within the framework of chambers of commerce, industry federations, universities and think tanks.

Federation of Indian Chambers of Commerce and Industry[182] *(FICCI)*

FICCI was established in 1927 as India's Merchant's Chamber with the mandate to garner support for India's independence. FICCI is the largest apex business organisation and has direct membership from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of companies from regional chambers of commerce. FICCI works closely with the government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sector specific consensus building and networking.

FICCI set up the Socio Economic Development Foundation in 1995, with the objective to encourage industry to participate in social development and to provide an institutional base to help companies adopt CSR as a strategic tool. To further the CSR cause, FICCI launched the Aditya Birla CSR Centre for Excellence in February 2010.

The Confederation of Indian Industries (CII)[183]

CII, established in 1895 as the Engineering and Iron Trades Association with the aim of pressuring the colonial government on its discriminatory purchasing policies, emerged as a national industry body in 1992, after a long journey of changes in name and mandate. CII has a direct membership of over 8,100 companies from the private and public sector, including SMEs and MNCs, and an indirect membership of 90,000 companies through the membership of national and regional sectoral associations.

CII set up the Social Development Council in 1995, to ensure corporate participation in social development in the areas of: community development, livelihood programmes, disaster management, education and literacy, population and health, vocational training and women's empowerment. Further in 2001, CII in partnership with UNDP set up the India Partnership Forum[184] (IFP) to promote a multi-stakeholder approach to CSR, emphasising that the corporate sector can complement and not replace the role of the government in social development. The IFP aims to provide a platform to facilitate dialogue, including policy and action, on the role and responsibilities of business in development.

The CII-ITC Centre of Excellence for Sustainable Development[185] was established to create a conducive, enabling environment for Indian businesses to pursue sustainability goals. The Centre is taking a lead role in:

- Advocacy and awareness generation on triple bottom line issues.
- Professional training for capacity building on sustainable development not only for the large companies but also the small and medium companies.
- Recognising and rewarding companies that contribute to sustainable development and promoting role models in different sectors of the Indian industry.
- Encouraging sustainability thought leadership.

Associated Chambers of Commerce and Industry of India[186] ***(ASSOCHAM)***

India's apex chamber, established in 1920 by various chambers of commerce representing all regions of India, ASSOCHAM represents the interests of industry and trade, interfaces with Government on policy issues and interacts with international counterparts to promote bilateral economic issues. ASSOCHAM is represented on all national and local bodies and is thus able to proactively convey industry viewpoints, and also communicate and debate issues relating to public-private partnerships for economic development. ASSOCHAM has over the past five years surveyed corporate India on its adoption of CSR and also provides a forum for discussion on CSR issues.

Other major industry associations in India are the Progress, Harmony and Development Chambers of Commerce and Industry and the Bombay Chambers of Commerce and Industry, which have also been promoting and working on issues of social and environmental responsibility among their members.

C. NGO Initiatives

India has a large and diverse civil society sector that is increasingly playing an active role in "policing" as well as partnering with the corporate sector as it does with the state. Civil society groups with the institutional capacity and national coverage to influence the national agenda on social and environmental issues are a recent phenomenon. All of the groups mentioned below either work with businesses to create a better CSR space, or more importantly, through their action, research and advocacy, are influencing and persuading the corporate sector towards responsible behaviour.

Partners in Change[187]

Within the NGO sector, Partners in Change (PiC), established by ActionAid International in 1995, was the first NGO in the country with a mandate to exclusively focus on engaging with business to minimise its negative impact and maximise its positive impact upon the lives of the most vulnerable and marginalised, as an integral part of doing business. PiC promotes the understanding and practice of corporate responsibility (CR) issues in India, whilst simultaneously promoting cross-sector partnerships as a tool to overcome complex development challenges.

PiC offers a wide range of CR-related services to businesses and civil society organisations operating in India - it engages and motivates companies to maximise social contributions while pursuing shareholder value, assists companies at all stages of CSR strategy and implementation, and conducts research and informs business through its publications. PiC works in close association with the government in the development of national and international CSR standards and guidelines. It also works with management institutions to promote and integrate CR in education and research.

The Global Compact Network, India[188]

Formed by the UNGC participant companies and other organisations in New Delhi in November 2003, the Indian Local Network of the Global Compact (GCN-I) provides a vehicle for Indian companies, academic institutions and civil society organisations to join hands towards strengthening responsible business initiatives in India and internationally. GCN-I facilitates and promotes industry action on Global Compact principles and supports policy advocacy and dissemination of information through workshops and seminars. Currently, as of March 2011, 137 businesses are signatories to the Global Compact out of a total of 234 members, with 109 companies active on their communications on progress.[189]

The Energy and Resources Institute[190] *(TERI)*

Founded in 1974, TERI started life as the Tata Energy Research Institute. As the scope of activities widened over time, the institute was renamed The Energy and Resources Institute in 2003.

TERI hosts the annual Delhi Sustainable Development Summit[191], a major event focusing on sustainable development, the pursuit of the Millennium Development Goals and assessment of worldwide progress in these critical areas since 2001. TERI has also established the World Sustainable Development Forum in 2005 to identify, analyse and disseminate policy interventions to enhance human well-being and create conditions for a sustainable future.

TERI-Business Council for Sustainable Development[192], India (formerly called CoRE BCSD India) is a platform to guide member companies to develop a vision of a sustainable company, translate that vision into a management action plan and turn sustainability into a competitive advantage. Other outreach activities of the network include workshops, training, seminars, events and publications.

TERI-BCSD India provides a platform for corporate leaders to address issues related to sustainable development and promote leadership in environmental management, social responsibility, and economic performance (the triple bottom line). It is a partner of the World Business Council for Sustainable Development and is a member of its regional network.

The Centre for Science and Environment[193] *(CSE)*

CSE, a public interest research and advocacy organisation based in New Delhi, was established in 1980 by a group of engineers, scientists, journalists and environmentalists to increase public awareness around the interdependence of issues in science, technology, environment and development. CSE researches into, lobbies for, and communicates the urgency of development that is both sustainable and equitable. Its efforts are built around five themes: communications for awareness, research and advocacy, education and training, a knowledge portal and pollution monitoring.

CSE's work on sustainable industrialisation encompasses two initiatives. First, the Corporate Environmental Policy Assessment Project where 500 of the top Indian companies are rated based on their environmental policy and management system, and second, the Green Rating Project (GRP) that aims to rate industries on their environmental performance.

Under the GRP initiative, the strategy is to focus on a company's future environmental commitment rather than dwell on its past track record by using a strict voluntary disclosure policy combined with a verification strategy. The methodology has been developed keeping in mind the lifecycle impact of five industry groups – paper and pulp, automobile, caustic chlorine, cement and agro-inputs – with 80% of the score devoted to lifecycle analysis and 20% to corporate governance.

The Development Alternatives Group[194]

A non-profit research, development and consultancy organisation established in 1983, the Development Alternatives Group's aim is to promote sustainable national development, to innovate and disseminate the means for creating sustainable livelihoods on a large scale, and to mobilise widespread action to eradicate poverty and regenerate the environment. The group advocates, innovates and promotes the use of cleaner production technologies, and the environmental and social responsibility of business. The group partners with a very wide range of players, ranging from government, international entities, various UN bodies and bilateral and multilateral institutions, corporate and private business, academia and civil society both in India and globally on issues pertaining to sustainable development, environmental protection, appropriate technology and innovation, all with the aim to creating scalable sustainable livelihoods.

Current Status

A 2008 national survey on CSR practices in India amongst leading business and corporate houses and public sector organisations commissioned by the Times Foundation found that up to 64% of private national and multinational companies started CSR programmes in the 1991-2005 period. While most of those companies stated that they had a clearly mandated CSR policy, most telling is their reluctance to share information on budget allocation for such initiatives.[195] In addition, one third of PSUs started their CSR programmes during the same period. Despite this reluctance to reveal allocations, two recent surveys shed light on India Inc.'s CSR record.

ASSOCHAM - Eco Pulse Study, CSR 2008-09

In June 2009, ASSOCHAM conducted a survey called the Eco Pulse Study, CSR 2008-09[196] and tracked the CSR activities of the top 300 Indian companies by net sales. On aggregate, the 300 companies identified 26 areas of focus for their CSR initiatives, of which the top four were community welfare, education, environment and health in descending order. It is interesting to note that in keeping with the notion of nation-building, rural development comes next on the list of CSR initiatives.

The survey tracked CSR activity by sector with the chemical sector taking first place, followed by fast-moving consumer goods, consumer durables and the textile sector. Close to 57% of the CSR activity of companies is concentrated in three states – Maharashtra, Gujarat and Delhi. Maharashtra taking the lion's share at 36%, with the economic powerhouse of Mumbai as its capital.

What is telling in the survey is that over 70% of the companies surveyed had only one or at most two CSR initiatives. Of the 300 companies surveyed, only three companies had five or six CSR initiatives each in the 2008-2009 time period.

Times Foundation and TNS India survey

The August 2008 Times Foundation and TNS India (a research organisation) survey showed "how companies have woken up to the value of virtue."[197] The survey, a national level study on CSR among 82[198] of India's leading business firms, corporate houses and public sector organisations revealed that 90% of the companies were involved in CSR initiatives. Multinationals lead the group, with 80% stating that they had a clear CSR policy, followed by PSUs at 60% and Indian private businesses at 50%.

The most popular areas of intervention were education (82%) and health (77%) followed by the environment (66%). In a little more than half of the companies, CSR initiatives covered people living in the vicinity of the operations, other target groups were the rural poor (42%), tribal people (16%) and 41% reported that they select target groups in consultation with NGOs.

Some of the motivating factors for companies undertaking CSR activities include branding, public goodwill and public perception. Up to 40% of the companies engage in CSR for tax exemption and yet others (10%) do it because they feel it is mandatory.

In contrast to Western countries and Japan, approximately three quarters of the companies participating in the survey wanted the government to play a role in formulating a national CSR policy. Over half expected greater involvement on the part of the government in implementing CSR, capacity building and in creating an enabling environment for such initiatives to take place. However, as it stands, the Indian government has had a limited role in promoting CSR[199] as discussed above.

Not surprisingly, the Tata group of companies, India's largest industrial and technological conglomerate founded in 1858 came out as the leader (68%) in a peer group review process built into the survey questionnaire.

The survey also provides an insight, albeit by default, on India Inc.'s notion of CSR. The survey also elicited responses on challenges faced by companies on the road to social responsibility. Companies complain of a lack of interest within the community to participate in company CSR activities; that CSR is seen as "donor-driven", with no clear statutory guidelines or policy directives on CSR and on clear implementation guidelines. Also in question is the capacity of local community groups to engage, and the overall transparency and accountability of the NGO sector as a whole. It is clear from the above that companies see CSR as external to their operations rather than an intrinsic management and operational strategy encompassing governance, health and safety, labour and human rights.

Moving Forward

Against the background of rapid globalisation, CSR remains high on the international agenda. And yet though business responsibility is by no means a new phenomenon in India, it has been slow in responding whole-heartedly to the demands of corporate citizenship.

In India, the main driver for CSR has clearly been the limited capacity of the state to deal with the current socio-economic challenges facing the country. In addition, an opening up of the economy by adopting the liberal Anglo-Saxon market-oriented policies, a competitive labour market and a rising civic awareness at home together with the global demands for a responsible supply chain, greater disclosure and transparency in governance are factors that are driving the adoption of CSR in India.

Brand image, reputation, customer loyalty and other oft-cited drivers in the developed world have still to make a mark in the fast changing consumer and business environment in India. Aspirations of being a global player however will slowly move these drivers upstream as benefits of responsible corporate behaviour become more apparent. More difficult to quantify (and hence yet to be seen as reasons) are factors such as improved financial performance, increased sales and lower operating costs.

On the environment front, the pressure to compete in global markets is the main driving force behind voluntary corporate initiatives in India. Large companies with a global presence are more open and able to bear the costs to make the necessary changes to improve their environmental and social performance. With reputation and image increasingly becoming key components of a company's marketing strategy and brand-risk management, the incentive to adopt international codes and standards is self-serving.

The Centre for Science and Environment has been successful over the years, since its creation in 1980, to raise the bar for the mining, manufacturing and natural resource-based industries and also raise consumer awareness on environmental issues. It is however, a lone voice in a very large country.

In India, consumer consciousness towards responsible production and consumers rights is still weak. With little pressure from both consumers and the government to adopt better labour and environment practices, the reality of codes and standards in

India, as they exist today, covers a very small fraction of the Indian business sector, namely big institutionalised businesses.

A large SME sector, an even larger informal sector and a thriving home-based workers system challenges the very regime of standards and codes that are designed to encourage responsible business behaviour. Implementation in these sectors is primarily related to the supply chain, the formal auditing and monitoring by third parties, and the capacity to ensure compliance by the state.

Furthermore, advocacy groups are fragmented and have yet to create large networks or mount wide-scale campaigns against harmful environmental or irresponsible labour practices of private companies. Most recently, there have been few successful anti-corporate advocacy campaigns against big business, the scuttling of the planned Tata-Nano car plant[200] in West Bengal and the Vedanta mining case[201] to name two. However, in both cases there has been political support in some form.

Traditionally, the links between NGOs and businesses in India have not been very strong. Disappointed with the state-led growth of the 1960s and 1970s, the agenda and reach of civil society groups expanded in the mid-1980s, when they increasingly became the partner of choice of multilateral and bilateral development agencies and international NGOs and donor groups. India has seen a growing number of think tanks, research centres, training organisations, advocacy groups and networks of NGOs working on a wide range of issues such as environment, consumer rights, women's rights, heritage conservation in order to lobby government.

Increasingly, now NGOs are playing the role of watchdog to the corporate sector, especially in the area of environmental pollution. Though starting as an adversarial relationship, the presence of NGOs has also facilitated the engagement of corporations in community programmes, building partnerships around issues in communities. This burgeoning relationship, however, is a double-edged sword. With privatisation, globalisation and the resultant increased profitability of the corporate sector, the NGO sector is increasingly dependent on business as a source of financial support. This has many times threatened to compromise the NGO sector's autonomy and agenda.

In India, judicial activism has been key in responding to the ever changing political and business landscape. Judicial activism and public interest litigation are the new tools used by an increasingly vocal civil society to get its voice heard.

Stakeholder priorities: in a recent film "In Good Company: Corporate India and the Climate Challenge" made by Malini Mehra of the Centre for Social Markets[202] in Kolkata, it was evident that within a diverse group of heads of corporations, industry, public sector undertakings, politicians and the new generation of entrepreneurs, the level of awareness of global and local social issues is extremely high, but the gap between talk and action is very wide. Copenhagen was cited as a good example where the gap between talk and action was visible, where the world's corporate leaders failed to take a collective stance. Had corporate leaders leaned on their respective governments, the outcome of the December 2009 meeting could well have been very different.

In 2007, in a strong message to corporate India, at the annual general meeting of CII, Prime Minister Manmohan Singh reminded the business community, "Corporate social responsibility must not be defined by tax planning strategies alone. Rather, it should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which the corporate entity functions."[203]

In addition, Leo Burke's[204] following suggestion is very relevant in the Indian context. "For CSR, in India to have a meaningful impact on society in the coming decade, a 'national-local' approach may be best. National in the sense that there will need to be nationwide alliances and databases in order to quickly learn best practices, share innovations, and 'scale-up' pilot programmes. Local, in the sense that it will require organisations to efficiently implement programmes at the grassroots level, as well as, mobilise volunteers to serve their local communities."[205]

9 INDONESIA

A Gotong Royong CSR

Abstract

In Indonesia, the traditional Javanese tradition of *gotong royong* can be described as a precursor to CSR. In a society where family and community are the centre of both social and business interaction, mutual and reciprocal assistance has historically been the basis of village life.

The three decades of the New Order under the Suharto regime (1965-1998) were characterised by rampant corruption and a business community which operated with impunity with little regard to corporate compliance or socially responsible behaviour. Since the fall of the Suharto regime, there have been several iterations of political (democracy and decentralisation) together with corporate reform that has seen a renewed focus on responsible environmental stewardship, financial accountability and transparency in governance. However, a paternalistic, patriarchal management of family conglomerates lends itself to charity and philanthropy within the community but does little to promote responsible business strategy and conduct.

Multinationals and home grown industry associations have taken the lead in creating awareness around the issue. Nevertheless, a 2010 study still reports "…the absence of material reporting on environment, engagement with customers, suppliers and employees" with community investment being the dominant business action on the CSR front.

Ironically, Indonesia stands as the only country in the world to have passed a law mandating CSR in 2007, though it has still to issue any implementing guidelines for the statute to take effect. A decade into the 21st century, Indonesia has progressed in its awareness and understanding of CSR, but still continues to focus on the charity, philanthropy and community involvement.

Background

- Gross Domestic Product: $708.558 Million US dollars (at current prices.
- Population: 239.87 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): $2,580.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 29.[206]

Historical Context

Historically, in Indonesia *gotong royong* - mutual and reciprocal assistance or working together for the welfare of all - has been the cornerstone of traditional Javanese village life. In the move to modern, capitalistic means of production, that interaction and obligation within the social construct has disappeared. The emergence of CSR in Indonesia is seen as the resurgence of *gotong royong,* the social responsibility of all stakeholders within a community, just as some in China view CSR as the return of the *danwei* or the work unit within the Communist Party framework.

How far this understanding of the responsibility of a diverse group of stakeholders in a community extends to the modern business unit is as yet unclear. The paternalistic, patriarchal management of family conglomerates lends itself to charity and philanthropy within the community but does little to promote responsible business strategy and behaviour on several other fronts – governance, operations, environment, and employee relations, to name a few.

Political-Business Context

In Indonesia, the CSR movement is essentially a post-Suharto phenomenon. In 2001, one of the first few pieces of research coming out on the topic of CSR in Indonesia was titled "Quixotic Dream or Confident Expectation?" The title itself conveys the fact that just a decade ago the concept of CSR was nowhere on the horizon of the private corporate sector in Indonesia.[207] The paper addressed two central questions. First, if CSR had the capacity to really change multinational corporations' behaviour in Indonesia; and second, in the context of Indonesia's development crisis post-Suharto, if CSR was even relevant. According to Andrew Rosser[208], the term CSR was rarely used in public discussion until about 2004.

Any study of corporate responsibility in Indonesia needs to be juxtaposed alongside the political and business reality of the last three decades before the turn of the 21st century.

In Indonesia, all through the New Order (1965-1998), military economic interests, private Indonesian conglomerates and multinational companies with their support for Suharto were largely immune to international and local pressures. President Suharto's rule was characterised by rampant corruption, nepotism and cronyism, where his family and associated networks appropriated both corporate profits and public resources for personal enrichment. Some examples of mining controversies involving MNCs include PT Freeport Indonesia, an operating subsidiary of Freeport-McMoRan Copper and Gold Inc., and its less than responsible operations from 1973 until the mid-1990s in Papua, and the prolonged pollution of Buyat Bay in north Sulawesi by Newmont Mining Corporation from 1995-2004.

Nationally, the nexus between money and politics continues to this day, and is exemplified by the 2006 BT Lapindo mudflow and the ongoing Sinar Mas palm oil controversy. Such business- and state- sponsored corruption is captured in Transparency International's 2010 Corruption Perception Index[209] which measures perceived levels of public-sector corruption globally. Indonesia is ranked 110th among 178 countries, despite the creation in 2003 of an anti-corruption agency[210], the Corruption Eradication Commission, also known as the KPK.

The push for corporate responsibility and good citizenship came from the international global movement of business ethics. The oft-cited Nike and Levi Strauss related labour and human rights transgressions in Indonesia, in the 1990s first highlighted the need for multinational companies to take responsibility for their supply chains where their manufacturing was housed. Secondly, the environmental devastation by natural resource-based companies both multinational (Western and Asian) and domestic, and their dismal labour and human rights record in Indonesia (the periodic haze in the region, illegal logging, mining and loss of tribal land rights) only reinforced the need for transparency and accountability of the corporate entity.

Development of CSR

Exhibit 9.1: CSR Timeline of Indonesia

Date	Milestone
1995	Programme for Pollution Control, Evaluation and Rating[211] (PROPER) introduced.
1999	Indonesia Business Links established.
2002	Business Watch Indonesia established.
2003	Creation of an anti-corruption agency, the Corruption Eradication Commission.
Apr 2006	Global Compact Local Network Indonesia launched during the Asia-Pacific Business Forum.
Jul 2007	Indonesia passed a law mandating CSR, Article 74 under the Law 40/2007 on Limited Liability Companies (LLC) Law.
2009	SRI-Kehati index with 25 companies listed, launched.
Sep 2010	Burger King joined Nestle, Kraft, and Unilever as multinationals that have severed business ties with Sinar Mas.

The Politics of CSR

In the Indonesian context, it is interesting to briefly outline the political dynamics that shaped the regulatory developments on CSR and its emergence as a public issue in Indonesia. Andrew Rosser and Donni Edwin[212] trace the interest, agenda and leverage of different groups in the struggle over CSR policy in Indonesia. Rosser and Edwin assert that the genesis of the CSR law reflects a struggle between three groups within Indonesian society – the dominant capitalist class, local communities (and their NGO allies) that have been adversely affected by corporate activity and elements in the political parties and bureaucracy looking to exercise control over economic resources generated by the major corporations.[213]

Representatives of civil society, like Business Watch Indonesia (BWI), were the first to suggest inclusion of CSR, in order to hold companies accountable for the negative social and environmental impacts of their activities. In 2005, the new draft law on limited liability companies was first presented to the Indonesian parliament, with the aim to take into account improvements in technology, advances in knowledge and to make Indonesia's company law consistent with laws that had been introduced since the fall of Suharto.

BWI representatives drew attention to the absence of any mention of CSR and made a case for its inclusion, arguing for a stakeholder interest as opposed to merely shareholder interest. The BWI team did not specifically recommend that the new law on LLCs include a mandatory CSR component, but favoured a mandatory approach. Industry groups strongly opposed the mandatory requirements for CSR as they saw it as redistributive and essentially an additional tax on companies. Their major concern was the predatory opportunity for further corruption.

Nevertheless, the political and bureaucratic structures succeeded in pushing the mandatory approach to CSR and in July 2007 Indonesia passed a law mandating CSR. Where industry succeeded, was getting the CSR requirements narrowed down to companies in the natural resource sector, rather than the entire universe of LLCs.

Corruption

For companies in Indonesia, pervasive corruption both within the government and business sector is a constant challenge, as epitomised by the dismal 110th ranking of Indonesia on Transparency International's Corruption Perception Index. In Indonesia, the illegal exploitation of natural resources, very often with the knowledge and backing of the central government, has brought to the fore the issue of corporate responsibility for both Indonesian business leaders and the general public.

In 1999, as one of its first initiatives, the Indonesia Business Links (IBL)[214] launched a public awareness campaign promoting and encouraging ethical business practices, effective governance, greater disclosure, transparency, and independent oversight and management of public and private enterprises – all emphasising the importance of proper business practices. The ongoing anti-corruption campaign was further enhanced by television and radio broadcasting opportunities.

As recently as 2007, Yanti Koestoer, IBL's Executive Director, wrote about the challenges faced by companies in implementing corporate governance and undertaking social investment in Indonesia. The example of the hijacking of the policy process outlined above shows that before the country can push a CSR agenda, it will first have to make a dent on the corruption front for CSR to move up the value chain to the strategy level and not be seen solely as community engagement through philanthropic initiatives.

According to the eStandards Forum, of the Financial Standards Foundation[215], while Indonesia has an elaborate system of corporate governance rules, actual governance practice often falls short of OECD's recommendations. In its 2006 report on the Role of Non-Bank Financial Institutions, the World Bank identified weaknesses in Indonesia's equity market regarding enforcement of transparency, information disclosure, and corporate governance, saying "…Indonesia's business culture is based on relationships rather than rules, largely as a result of the high incidence of concentrated ownership, family-owned businesses, and controlling shareholders."[216]

Political and Corporate Reform[217]

The transition to a more democratic and decentralised political system has been a double-edged sword. Democracy has empowered civil society to challenge the powerful corporations (both foreign and domestic) that were once protected from such scrutiny by the capitalist-friendly stance of the New Order. Decentralisation has empowered local officials to demand better terms for access to natural resources and cheap labour, forcing large conglomerates to move out of their cosy relationship with the central government. Decentralisation, however, has also "decentralised corruption" leaving the private enterprise open to ever increasing demands of officials at the central, state and local levels.

New government reforms and laws passed since 1997 governing corporations are changing the business environment. In recent years, the Indonesia government has specifically aimed at eliminating ambiguity in investing in and operating a business enterprise targeting investment, labour, infrastructure, tax and customs and excise issues. For example, new corporate financial reporting and shareholder accountability laws increase business transparency and information, especially for those seeking to invest in existing ventures.[218] New bankruptcy and capital market laws conform with international best practice, clarifying firms' obligations to creditors and shareholders. Newly-introduced laws covering anti-competitive behaviour also protect new entrants from predatory behaviour by existing market players.

How does this legal overhaul impact CSR? In creating an unambiguous corporate legal framework, the Indonesian government has taken the first step on the CSR ladder. The lowest common denominator on the CSR ladder is the compliance by companies with legal statutes governing all functions of a corporation. These recent government initiatives have streamlined the regulatory environment in Indonesia and levelled the playing field for all state-owned, local and foreign companies. The key here is enforcement of the regulatory regime.

Despite all of the above efforts, Koestoer of IBL writes that there is little understanding of CSR by government officials. Government officials are limited in their knowledge of the extent to which private sector can contribute to social development.

Consumer and Community[219]

In Indonesia, there is little pressure from the consumer on companies to foster ethical or socially responsible behaviour. There is a dearth of data on consumer perspectives on CSR and general corporate ethical behaviour. General observation reveals that the Indonesian consumer continues to be very price conscious while paying less attention to "ethical production" standards.

On the other hand, historically there is a tendency for local populations to be overly dependent on companies to contribute to various aspects of their life as a "payment" for profiting from the "prosperity of their soil". However, once disappointed, the ill feeling generated towards the company is unrelenting and becomes a challenge to rectify. NGOs and local activists have since the fall of the Suharto regime successfully challenged corporate power and gained many concessions from companies, but still continue to be wary of the business community in general.

Civil Society

Despite a relatively vibrant NGO sector, the relationship between the business community and the NGO community is fraught with misconceptions, similar to elsewhere in the world. NGOs tend to stay with their "business is evil" stance of anti-profit ideology, and business sees NGOs as both out of touch with the realities of the business context and questions the lack of accountability within the sector itself. NGOs on the other hand doubt the citizenship credentials of business because of frequent attempts by business to green-wash their actions and respond to civil society pressures only when encountered with problems.[220]

As in the case of Nike and Levi Strauss, international activism is still the driving force holding companies to account. The most recent example of international environmental activism and civil society's success in changing corporate alliances is the case against Indonesian conglomerate Sinar Mas. While it has many different activities, that which it is increasingly known for is clearing prime rainforests in alleged contravention of Indonesian law to grow palm oil, which is used by multinationals in food preparation and to grow trees for pulp paper. In September 2010, after much pressure from Greenpeace International, Burger King joined Nestle, Kraft, and Unilever as multinationals that have severed business ties with Sinar Mas.[221]

Company Capacity and Infrastructure

Indonesian companies, as companies elsewhere, face limited expertise in the field of CSR. Very often the company's structure, namely, tightly controlled family conglomerates, does not accommodate the CSR function. Commitment from the top, vision of the leadership and motivation all need to be aligned for a successful CSR initiative.

According to Yanti Koestoer of IBL, as far as state-owned enterprises are concerned, government policy requires all state-owned enterprises to contribute a certain percentage of their profits to community empowerment. Often private Indonesian companies make charitable contributions to communities in times of need (primarily natural disasters), but some larger conglomerates are taking the longer term view of establishing their own foundations.[222] Under Suharto the vast *yayasan* network received its funding from "…Indonesian business and business persons were in some instances forced to "donate" a percentage of their wealth to these *yayasans.*"[223] The whole infrastructure of giving that exists elsewhere in the West is only just at the early stages of development in Indonesia.

According to a 2005 APEC study[224], the "key challenge for Indonesia as an economy basically is to develop a conducive environment for corporations to perform their roles as good corporate citizens, which would include good public governance and tax systems which will give incentives to socially responsible companies. Increasing further awareness among corporations on CSR as a critical element of a company strategy is another challenge."

In an October 2010 seminar, Hardinsyah of the National Center for Sustainability Reporting told The Jakarta Post, "Many companies have allocated more funds for CSR programmes and increased the amount of human resources dedicated to the field." However, many companies have yet to understand and implement a comprehensive and holistic CSR programme. "Many companies do not have this kind of understanding, let alone government officials," he said, adding that most government officials viewed companies as a source of donations and charity.[225]

Multinational Corporations

Historically, MNCs operating in Indonesia have been at the receiving end of international NGO activism on supply chain issues and their operational failings in the natural resource sector. In the case of MNCs, most have mandates from their headquarters to address these issues, and with the experience of the last two decades behind them, now take a leadership position on the CSR front in Indonesia.

As members of IBL, several MNCs actively contribute to the CSR debate and are willing to share their expertise and knowledge. They have in some ways taken the leadership in reporting and communicating through publications, dialogue and other interactive modes. With effective communications and regular interactions with stakeholders some have earned the trust of the community.

Very often at the turn of the century, the CSR debate and discussion was aimed at the MNC and its responsibility and obligations to Indonesia while conducting business or exploiting the natural resources of the country. In recent years, however, equal attention is given to the role and responsibility of domestic enterprises, examples being the media coverage and civil society action in the case of Sinar Mas and Lapindo Brantas.

Good image and reputation, as well as earning a social license to operate are increasingly becoming the common motivations of companies in Indonesia adopting CSR, whether local or multinational.

Environmental Stewardship

Under Indonesian law, any land not being used for agriculture, housing or industry is automatically owned by the state, nullifying traditional claims over land use (*adat* rights). This means natural resources can be exploited without any sharing of profit or compensation to the local community.[226]

Against this backdrop, one cannot write about corporate citizenship in Indonesia without focusing specifically on the history of corporate responsibility in the natural resource-based sector. The environmental devastation of natural resources by companies both multinational (Western and Asian) and domestic, and their dismal labour and human rights record in Indonesia only reinforces the need for transparency and accountability of corporate entities.

According to Melody Kemp, "despite international campaigns against Australian and American transnational companies in the main mines, the worst environmental damage is being done by regionally owned and Indonesian natural resource-based companies, some of them connected to the Indonesian military… others linked to Malaysian and Singaporean TNCs."[227]

The best known voluntary initiative towards corporate environmental responsibility was the Clean River Project (PROKASIH) introduced in 1989 and its successor Programme for Pollution Control, Evaluation and Rating[228] (PROPER) started in 1995. Initiated by the Indonesian government with support from several donors, this was Indonesia's first attempt at reigning in the environmental and ecological plunder that took place with impunity. PROPER began in 1995 as a joint initiative of the Environmental Impact and Management Agency and the World Bank, and in both programmes the reductions in pollution discharges were the result of the actions of a minority of firms. Firms that received bad publicity were often large domestic companies that were too big to care and at best made token modifications.

Around the palm oil controversy, Indonesian companies, though members of the Roundtable on Sustainable Palm Oil (RSPO), are less active than their Malaysian counterparts in pushing the sustainable production agenda. Indonesian agri-based companies have found it very difficult to find a middle ground that benefits all. According to Edi Suhardi, the Head of CSR for PT Agro Harapan Lestari, "…the government and growers are mulling an alternative certification regime under the Indonesia on Sustainable Palm Oil (ISPO) scheme, which has been seen by some parties as contradicting the whole purpose of RSPO." [229]

Socially Responsible Investment in Indonesia

Against the above backdrop, the Indonesian Biodiversity Foundation (*Yayasan Kehati*), supported by the Indonesian Stock Exchange launched the first SRI Index for Indonesia in 2009. The SRI-Kehati Index aims to raise investor awareness of companies' environmental and social track and set a reference and benchmark to track and evaluate best practice performance for investors and corporations.

The SRI-Kehati index, lists 25 companies, ranked on their performance in six areas: the environment, community involvement, good corporate governance, respect for human rights, business behaviour and labour practices. In his comments to the Financial Times (FT), Emil Salim, the founder of Yayasan Kehati, acknowledged that, "We need to raise awareness that there is more to business than just profit."[230] The FT article goes on to write that "Market players believe it will take time to gain relevance because few Indonesians care about sustainability issues."

Clearly, the debate and controversy surrounding mandatory CSR has helped raise awareness on the subject among all sectors – business, government and NGO. Industry groups, international pressure and globalisation are all slowly chipping away at the so called "barriers to CSR" namely, corruption, feudal management and governance styles, weak environmental stewardship, and business and consumer awareness.

The Players

A. Public Initiatives

Indonesia's CSR Law

In July 2007, Indonesia became the first nation to pass a law making CSR mandatory for Limited Liability Companies (LLCs) operating in the natural resource sector, with sanctions to be imposed for non-compliance. Article 74 under the Law 40/2007 on Limited Liability Companies Law, is now popularly known as the "CSR Law" (Law 40/2007 - Article 74). All industry groups have come out against the mandatory requirement and have lobbied hard to get Article 74 declared unconstitutional. An April 2009 appeal to the Constitutional Court was unsuccessful.

However, four years on, Indonesia has yet to issue an implementing regulation, thus making Article 74 unenforceable, de facto retaining a voluntary approach to CSR, though Article 66 of Law 40/2007 requires companies to "report on the implementation of Social and Environmental responsibility."[231] Rosser and Edwin suggest that in the interim Indonesia needs to move the CSR agenda towards promoting measures that serve to increase market-based pressure on companies to act responsibly. Such measures may include the formulation of compulsory CSR reporting standards, adoption of green procurement practices by government departments and agencies, greater use of certifications, and the promotion of ethical investment funds. Such measures may be more effective in a country where enforcement is weak.

In addition, the Revised Investment Law (Law 25/2007) mentions the "obligations" and "responsibility" of investors and requires them to practice good corporate governance and respect local traditions and culture.[232]

In 2006, Bapepam LK (Capital Market Executive Agency) issued a decree No. 134/BL/2006 making it obligatory for listed companies to detail the activities and the cost for the activities related to the environment and society.[233]

Needless to say that the enactment of this law has played an important role in promoting the awareness of CSR within the Indonesian business community, industry bodies, practitioners and academics.

B. Private Initiatives

The process of democratisation that followed the fall of Suharto's authoritarian New Order government opened up opportunities for local NGO activists to publicly criticise domestic and foreign companies for contributing to environmental and social problems such as deforestation, pollution and the destruction of local indigenous and tribal communities. In response, domestic and foreign capitalists found the notion of CSR useful to portray their social and environmental credentials.

Indonesia Business Links (IBL)[234]

Established in 1999, IBL, a consortium of 46 companies (largely multinationals) promotes "good corporate citizenship and partnership for development." The organization is an offshoot of a multi-stakeholder discussion held during the Annual World Bank Conference in October 1998 in Washington DC, on the need to establish a private organisation with the aim to help improve the state of corporate governance in Indonesia.

Since its founding, IBL has been actively promoting ethical business practices in Indonesia through workshops on business ethics and capacity building of small and medium enterprises. The Ford Foundation has been instrumental in strengthening IBL's capacity in advocating CSR through: (1) production of a series of books on CSR Best Practices in the Indonesian context and four thematic CSR areas books (2) improvement of web-based Geographical Information System (GIS) mapping on CSR programmes throughout Indonesia, and (3) a Learning Forum series reaching out to cities across Indonesia.

Business Watch Indonesia (BWI)[235]

Established in 2002 by Indonesian NGO activists focused on CSR issues, BWI works to promote corporate accountability, fair business practices and facilitate public participation towards democratic economic governance. BWI publishes a CSR-related periodical (CSR Review) with a policy agenda focused on the need for corporate accountability.

Global Compact Local Network (GLCN)

The GCLN Indonesia[236] was launched in April 2006 with the aim to "Promote, facilitate and implement the UN Global Compact principles in Indonesia" and in addition to be "… a respectable agent of change in accelerating country transformation towards the achievement of human rights, competitive labour, sustainable environment, and ethical business practices."

GCLN Indonesia performs an increasingly important role in recruiting new participants through co-organised briefings, seminars, conferences and one-on-one calls. GCLN Indonesia also offers opportunities for business networking, promotes the undertaking of collaborative projects, and encourages the sharing of good practices related to corporate responsibility. The GCLN Indonesia has 154 signatories comprising of MNCs, national corporations, SMEs, universities and civil society organisations.[237]

Other players in the CSR space in Indonesia are:

– KADIN: Indonesia (Indonesian Chambers of Commerce and Industry) that runs a "Good Corporate Governance" programme;
– Indonesian Employers Association (APINDO) tasked with the establishment of social welfare in the business community through integrated cooperation between the government, employers/ enterprises, and workers;
– Public Interest Research and Advocacy Center (PIRAC): an NGO service provider working to build the capacity of the Indonesian civil society organisations and disseminate information in the field of philanthropy; and
– National Center for Sustainability Reporting[238] (NCSR): which works to develop standards and improve the quality of sustainability reporting, uphold good governance, and promote and develop knowledge and practice of sustainability and CSR management in Indonesia. The NCSR has run the Indonesia Sustainability Reporting Awards since 2005.

All industry groups support CSR learning through roundtable discussions and forums with corporations, NGOs and government; create awareness through seminars, publications and awards; encourage sharing of best practices and some facilitate exchanges among corporations and with NGOs to help build partnerships. These groups themselves have built up their capacity to be a resource and convener of CSR knowledge with the help of international partners, such as the Ford Foundation, bilateral and multilateral agencies and various Dutch, German and Norwegian industry partners.

Analysis of the contributions of the above organisations to the CSR debate is constrained by the fact that majority of the materials (website, research and analysis, comment and debate) coming out of the work of these entities is in Bahasa Indonesia. In addition to the limited amount of research done on CSR in the country, the non-availability of materials in the English language greatly narrows the scope of the CSR review in Indonesia.

Current Status

As the state of CSR in Indonesia is still at its early stages, its understanding of CSR among companies and the public continues to be charitable and philanthropic in nature. In some instances, CSR is seen as "cause-related marketing" or "strategic philanthropy", but the definition is far short of the intrinsic business strategy that CSR advocates are looking for. Surveys on CSR initiatives of companies are few and far fewer are reports on these surveys in the English Language.

In a 2003 study[239] conducted by Nottingham University, Indonesia consistently came in at the bottom in the seven-country study, whether it be CSR reporting, both guiding principle and policy intention; and initiative and implementation.

A 2003 study[240], by D. Hartanti[241] of the University of Indonesia, of social disclosure in annual reports of companies in Indonesia during the period of 1999-2001, shows that the average rate of disclosure is relatively low. Employing content analysis, comparing social disclosure in the annual report with a list of social disclosure as a reference, the majority of the disclosure was found on the product and labour front, followed by community involvement and environment with the last one being energy.

In a further study in 2007[242], Hartanti finds that average disclosure of environmental information is relatively low, i.e. 8.3 on a maximum score of 30. Similarly the disclosure of environment management systems is 2.6 on a maximum score of 7. The study comprised of 81 government-owned manufacturing companies and corporations which had received the PROPER[243] Award from the Ministry of Environment.

The 2010 Response Research and CSR Asia's "Asian Sustainability Rating - ESG Reporting Uncovered" (ASR) report corroborates the above, as indicated by "the absence of material reporting on environment, engagement with customers, suppliers and employees"[244] as reported in the research. In the same research, however, Indonesian companies almost universally scored well on the community investment indicators, and ranked second on the ASR in that category.

While a few years ago it was considered an alien concept, with a very low level of awareness, today Indonesian companies, especially those operating in the global markets have progressed and are increasingly aware of the need to balance economic, environmental and social components of their business, while building shareholder value. Nevertheless, the gap between awareness and action is still significant.

Moving Forward

In Indonesia, CSR is a complex issue given the post-colonial history of the nexus between politics and business. There continues to be confusion over the definition and scope of CSR. Conventional drivers of CSR in Indonesia are weak: civil society and consumer voice is weak and unorganised; large indigenous conglomerates dominate with a very patriarchal hierarchy of management; government understanding of CSR is very limited and narrow; and to date the government has done little to promote the practice of CSR outside of introducing the controversial "CSR Law." NGOs are the one voice that is trying hard to rally support, but are disadvantaged by limited capacity and resources.

In the short to medium term, the most likely scenario for Indonesia is the de facto continuation of a voluntary system of CSR, in light of the fact that the government has still to issue implementing guidelines. The likelihood of agreement on a strategic vision would be greater if industry associations, global partners and civil society groups encouraged companies to undertake CSR with stakeholders as partners.

International civil society and globalisation pressures will likely be the driving force to move the Indonesian business community to move up the CSR value chain.

10 JAPAN

The *Kaizen* Measure

Abstract

Japan, now the world's third largest economy and the first Asian "OECD" country, serves as a model for emerging Asian economies. The earliest thoughts on mercantilist responsibility date back to the early 17th century. Ancient tenets such as shichu kiyaku and kyosei have found modern day interpretations by 20th century titans such as Ryuzaburo Kaku, Chairman of Canon Inc and Gaishi Hiraiwa, Chairman of the Tokyo Electric Power Company.[245]

The Japanese corporation has a history of contributing to society going back centuries. Corporate mission statements have embedded in them strong commitments to the immediate community in which they operate and to society at large, such as - stable employment, environmentally conscious production processes, customer-oriented products and services, and product safety - the very attributes being defined as CSR today. Nevertheless, the post-WW II Japanese "miracle economy" was not without its negative effects of industrial pollution, poor product quality and environmental degradation. Major corporate scandals and misdeeds triggered waves of government regulation together with industry introspection and corrective action.

Unique in Japan is role played by the two industry associations namely, *Nippon Keidanren* and *Keizai Doyukai*. Both have taken the lead in pushing corporate reform and advocating the adoption of corporate codes of conduct and ethics. In addition, globalisation can be understood to be an important driver for Japanese multinational enterprises to adopt CSR as a management tool and business reality.

Today Japan has emerged as a leader in environmentally conscious corporate management. Business responsibility has been strongly linked to environmental protection and energy efficiency. The Japanese corporation however, has some way to go in addressing supply-chain, diversity and human rights issues and community engagement, unlike its counter-parts in other OECD countries. Philanthropic involvement by Japanese companies is much more limited than in the English-speaking countries. There is also less awareness than in other developed countries of corporate responsibility for the social impacts of the value chain.[246]

Background

- Gross Domestic Product: $5.498 Trillion US dollars (at current prices).
- Population: 127.45 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): $42,130.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 306.[247]

Historical Context

In Japan CSR is, both a new concept and an old one. The earliest thoughts on mercantilist responsibility can be found in a document known as the *Shuchu Kiyaku* which is rooted in ancient Confucian philosophy. *Shuchu Kiyaku*, were created as a set of principles as guidance on how to conduct proper foreign trade by one of the wealthy merchant families in the Tokugawa period dating back to the early 17th century. *Shuchu Kiyaku* held that trade can be carried out not just for one's own benefit but also for the benefit of others.[248]

Eichi Shibusawa, the "founder of Japanese Capitalism" during the Meiji period of 1867-1911, as well as the founder of the Tokyo Stock Exchange in 1878, presented his ideas on "the compatibility between the Analects of Confucius and the abacus,"[249] where he reasoned that business activity (using the abacus) must be put into operation based upon high moral standards (observing the teachings of Confucius).

These principles have successively found modern interpretations. During the pre-war period (1911-1945), Koyata Iwasaki, who led the Mitsubishi *zaibatsu*, presented the Three Corporate Principles of Mitsubishi: "*Shoki Hko*" (Corporate Responsibility to Society), "*Shoji Komei*" (Integrity and Fairness), and "*Ritsugyo Boeki*" (International Understanding through Trade).[250]

More recently the ideals associated with *kyosei* [251] have found their way into the mainstream of CSR and ethics discussions worldwide. A traditional concept, with roots in ecology, the literal translation of the terms involves two Japanese characters, *kyo* which means working together and *sei* which means life, taken together their most literal interpretation is cooperative living or symbiosis. *Kyosei* was first linked to business behaviour by the Kaitokudo Merchant Academy of Osaka (established in 1726) in its efforts to link business and Confucian thought. Today, having established the historical connection between the Confucian philosophical principles on which *kyosei* is based, its adaptation and application has been a significant descriptor of corporate behaviour in Japan.

In the 20th century, Ryuzaburo Kaku, Chairman of Canon Inc., began applying the concept to the business environment. Most notably, Kaku defined *kyosei* as a "spirit of cooperation" in which individuals and organisations live and work together for the common good, an ideal he introduced to Canon's corporate structure in 1987. His goal was to foster the understanding that long-term business success can only be based on respect for the inter-connectedness business has with people, communities in which they live and the environment.

In 1991 Gaishi Hiraiwa, then Chairman of the Tokyo Electric Power Company published one of the earlier applications of *kyosei* to corporate life. He suggested that Japanese businesses should seek symbiotic relationships within the international community, within Japan itself and with citizens individually. At the 1994 Caux Round Table, a group of Japanese, US and European business, education and community leaders developed a comprehensive set of principles for business behaviour with the concept of *kyosei* and human dignity as its core.

This rich "cultural history" of CSR has therefore influenced the strong commitments embedded in corporate mission statements towards the immediate community in which they operate and to society at large. However, this history of aspirations is not the complete story of CSR in Japan.

Postwar Japan & the Development of Corporate Ethics

Japanese industry in post-World War Two was divided on two counts, one on whether CSR fitted in with the realm of business and on the definition and scope of CSR. In the early 1950s, the orthodox position asserted by Konosuke Matsushita, founder of Matsushita Electric and Hosai Hyuga, the Chairman of *Keizai Doyukai*[252], was that the chief responsibility of companies was to enhance shareholder value. Matsushita famously dismissed the pollution problems of the 1970s as being outside of the social responsibility of companies. Though in later years he changed his stance and said, "… companies that do as they please will not last long."[253]

There were other proponents of CSR, like Kazutaka Kikawada, Chairman of Tokyo Electric Power, who said, "Rather than looking at society from the company's perspective, companies must consider their role from society's perspective."[254] Similarly, Sadatsune Iba, second generation chairman of the Sumitomo group, stated that "… profits are a worthy aim, but the method used must also be worthy."[255] Further, Tomiro

Nagase, founder of Kao Soap Company said, "…companies have a social mission that transcends profit-making."

As early as 1956, the *Keizai Doyukai* adopted a resolution titled "Awareness and Practice of the Social Responsibilities of Businessmen", that clearly states that "Companies need to move out of the simplistic private domain and become a powerful part of social systems. Management is not simply entrusted by investors who provide capital, but by all of society."[256]

In the years following World War 2, government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1% of GDP) helped Japan develop into a technologically advanced economy. The distinguishing characteristics of the post-war economy were the cross-share holding of corporations by the *zaibatsu*[257]; the close interlocking structures of manufacturers, suppliers, and distributors, known as *keiretsu*; and the guarantee of lifetime employment for a substantial portion of the urban labour force (*sh shin koy*). Hence the core members of a corporation's main stakeholders - shareholders, labour, and main suppliers – pursued common interests as members of a corporate society with the support and guiding hand of the government. This relatively cozy business-government-society relationship made for relative stability in stakeholder relationships.

Over the next 20 years, Japan was able to become the first postwar-era country classified as "less-developed" to achieve "developed" status. In 1968, Japan's economy became the world's second largest, behind only that of the United States.[258]

In Japan, traditionally, a company has been associated with the formation of the community, forming the basis of a society to which an individual belongs. Thus a company is considered a social organisation, not simply an economic machine, both individuals and companies are members of society and hence responsible to it. Throughout its high-growth period, up until the 1980s the Japanese corporate system was internalised into a "closed network of corporate society."[259]

The end of the "bubble economy" in the early 1990s and the Asian economic crisis slowly unsettled this close relationship. Only then, and under the global spotlight of foreign operations did the Japanese enterprise begin to respond to the CSR demands of globalisation, its overseas partners and host countries.

Development of CSR

Exhibit 10.1: CSR Timeline of Japan

Date	Milestone
Meiji period (1867-1911)	Eichi Shibusawa, the "founder of Japanese Capitalism", presented his ideas on how business activity must be put into operation based upon high moral standards (observing the teachings of Confucius).
Pre-war period (1911-1945)	Koyata Iwasaki, who led Mitsubishi Zaibatsu, presented the Three Corporate Principles of Mitsubishi: "*Shoki Hko*" (Corporate Responsibility to Society), "*Shoji Komei*" (Integrity and Fairness), and "*Ritsugyo Boeki*" (International Understanding through Trade).
1956	*Keizai Doyukai* (Japan Association of Corporate Executives) adopted a resolution titled "Awareness and Practice of the Social Responsibilities of Businessmen".
1967	Enactment of the Basic Law for Environmental Pollution Control.
1973	*Nippon Keidanren* (Japan Federation of Economic Organisations) proposed ideals for corporate behaviour.
1974	CSR was cited as part of a Diet resolution attached to a Commercial Code revision, aimed at corporate misbehaviour.
1987	Ryuzaburo Kaku, Chairman of Canon Inc., took the concept of *kyosei,* defined as a "spirit of cooperation", in which individuals and organisations live and work together for the common good, and introduced it to Canon's corporate structure.
1989	Association for the Corporate Support of the Arts formed.
1990	Keidanren 1% Club formed.
1991	Following the crash of the Tokyo Stock Exchange, the Charter for Good Corporate Behaviour, a prototype for today's CSR, was created by the Nippon Keidanren.
1991	Gaishi Hiraiwa, then Chairman of the Tokyo Electric Power Company, published one of the earlier applications of *kyosei* to corporate life.
1994	Japanese business leaders join their US and European counterparts to draft the Caux Round Table, with the concept of *kyosei* and human dignity at its core.

1996	ISO 14001 environmental management system established. Japanese businesses have led the world in numbers of certifications since.
Dec 1997	Kyoto Protocol adopted during the Third Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change.
2002	Government set up Exploratory Committee of Self-imposed Codes of Conduct published "Building up Consumer Confidence in Business: Guidelines for Corporate Codes of Conduct".
Jan 2003	Ricoh drew up its own CSR Charter, the first original charter created by a Japanese company.
2003	Keizai Doyukai called on its membership to conduct voluntary self-evaluations using an evaluation standard proposed in its 15th Corporate White Paper: CSR in Japan – Current Status and Future Challenges.
2004	Charter for Good Corporate Behaviour revised to formally incorporate CSR.
January 2009	Kyoto City selected as one of 13 Eco Model Cities by the Japanese government. The city's CO_2 emissions reduction targets are 40% by 2030 and 60% by 2050, compared to the 1990 levels.
March 2009	*Nippon Keidanren* released its Biodiversity Declaration, which includes guidelines on measures to support biodiversity conservation.
July 2009	Five major Japanese blue-chip companies established a corporate leaders' network, called Japan Climate Leaders' Partnership.

Corporate Reform

Interestingly in the case of Japan, Masahiko Kawamura[260] traces the evolution of CSR in the last 50 years as it parallels the history of corporate reform. The Japanese "miracle economy" however, was not without its negative effects of industrial pollution, poor product quality and environmental degradation, all part and parcel of the growth years. Major corporate scandals and misdeeds triggered waves of government regulation together with introspection and corrective action symbolised by the adoption of corporate codes of conduct and ethics.

During Japan's rapid growth era in the 1960s, companies single-mindedly pursued profit. As a result, industrial pollution and other social problems emerged first, primarily in heavy and chemical industries. These incidents raised the issue of liability without fault, and triggered protest movements by civil society and victims. A strong anti-business sentiment emerged that regarded companies as inherently evil, and led to the enactment of the Basic Law for Environmental Pollution Control in 1967.

Responding to corporate criticism at its peak in 1973, *Nippon Keidanren*[261] proposed ideals for corporate behaviour. At the company level, new departments were set up to deal with pollution, and foundations were hastily formed to return some of the profits back to society. The early 1970s post-oil shock inflation that prompted opportunistic price hikes, market manipulation and poor product quality all added to the anti-business sentiment that first surfaced in the 1960s. Following intensive debate on runaway inflation, CSR was cited as part of a Diet resolution attached to the Commercial Code revision of 1974, aimed at corporate misbehaviour.

The late 1970s and early 1980s saw the CSR debate subside only to come back into the limelight in the mid-1980s with a spate of *sokaiya* racketeering (corporate blackmail). At the same time, the rising prosperity in the nation and rapid expansion by Japanese companies overseas highlighted the differences in the Japanese standard of living and that in other OECD countries. This raised social issues directly related to companies and employees. In response, the idea of the "good corporate citizen" was introduced as companies actively contributed to the arts, academia, social welfare and international exchange. The Association for the Corporate Support of the Arts was formed in 1989 and the Keidanren 1% Club[262] in 1990.

The Council for Better Corporate Citizenship[263] (CBCC) was established by *Nippon Keidanren* in 1989 under the leadership of late Akio Morita, then-chairman of Sony Corporation. CBCC has supported Japanese affiliated companies throughout the globe in their effort to be recognised as "good corporate citizens" among the local workers, the community and other stakeholders.

The 1991 asset price bubble and the subsequent collapse of real estate and stock prices brought to light numerous transgressions by Japanese companies and the distrust of Japanese companies reached its peak. This eventually resulted in the creation of a Charter for Good Corporate Behaviour in 1991 by the *Nippon Keidanren,* which can be construed as the prototype for today's CSR. The Charter now referred to as a Charter of Corporate Behaviour was revised several times in the 1990s to incorporate corporate ethics and compliance and was revised again in 2004 and 2010 to incorporate CSR.[264] In March 2009, the *Nippon Keidanren* released its Biodiversity Declaration, which includes guidelines on measures to support biodiversity conservation.[265]

The Japanese Firm Goes Global

Based on one of the earliest surveys on CSR issues, Lewin, et al (1995)[266], found that the emerging importance and visibility of Japanese firms around the world increased the interdependence of Japanese firms and their host nations, increasing expectations from host nation stakeholders for corporate responsibility. As Japanese companies established wholly owned subsidiaries, manufacturing plants, marketing operations and research and development centres abroad, Japanese companies came to respond to host country expectations. Japanese firms also started to import host country practices into their own operations and adapt them to their Japanese style of management.

Lewin et al. go on to write that traditionally Japanese firms implemented and controlled corporate citizenship via guiding values and beliefs (that is, culture) rather than formal administrative processes. Furthermore, the Japanese concept of citizenship tends to focus on internal stakeholders and local issues. Corporate citizenship issues that are of immediate and direct interest to the firm's day-to-day operations – those involving employees, shareholders, product quality and safety – are rated as most important in the survey conducted.

In 1991, Lewin, et al wrote "As the Japanese construct of corporate citizenship evolves, it may widen to encompass more diverse stakeholders and cosmopolitan (global) as well as local issues". Two decades on that is certainly true of the Japanese firms, for example, Toyota leads in the race for fuel efficiency and alternative fuels.

The Western model of fostering corporate social performance primarily via formal structures is a procedural justice perspective. The Japanese model, on the other hand, is a mode of cultural control, and fits with loosely structured organisations that depend upon shared beliefs and values rather than administrative structures for carrying out organisational goals.

Environmental Sustainability

The 1990s, often referred to as the lost decade in Japan, was also the decade when global warming, destruction of rainforests, the destruction of the ozone layer and desertification came under the global environmental spotlight. Countries and companies alike were forced to look beyond local environmental issues and consider the environmental footprint of operations, products and services on a global scale.

Hiroshi Hirose[267], President of Sumitomo Chemical Co., Ltd., and Chairman, *Nippon Keidanren's* Subcommittee on Socially Responsible Management stated that Japanese companies have been balancing shareholder interests with those of other stakeholders long before other countries began doing so. In his view, Japan turned the lack of natural resources to its advantage, and developed cutting edge technology for energy and resource conservation as well as environmental protection which have benefited society at large before the rest of the world started on this track.

Two important developments in the 1990s that further influenced Japanese industry were the UN Conference on Environment and Development in 1992 and the adoption of the ISO 14000 standard for environmental management systems in 1996. This was soon followed by the Third Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, which was held in Kyoto in December 1997.

The city of Kyoto thereafter became famous for the Kyoto Protocol which was adopted during this session. Since then, a deep-rooted environmental awareness has been established in government, business and Japanese citizens. Since the establishment of the ISO 14001, Japanese businesses have led the world in numbers of certifications.[268]

At the national level, in January 2009, Kyoto City was selected as one of 13 Eco Model Cities by the Japanese government. The city has an ambitious carbon emissions reduction plan, targeting a 40 percent reduction by 2030 and 60 percent reduction by 2050, from 1990 levels. Furthermore, Kyoto is proactively seeking to be a "zero-carbon city," with no greenhouse gas emissions.[269]

In January 2003, Ricoh, a leader in environmental management, drew up its own CSR Charter, the first original charter created by a Japanese company.[270] Today, Japan is a global leader in terms of the number of companies issuing sustainability reports – by the end of 2007 over 170 Japanese companies had notified GRI of their use of the GRI Guidelines in their reports.[271]

Consequently, this interest in environmental sustainability has manifested itself in the ISO 26000 process, which has seen Japan play an active role in shaping the agenda and giving full consideration to the positions of Japan and other Asian countries.[272]

A decade into the 21st century, CSR in Japan has continued to develop at a steady pace. Globalization can be understood to be an important driver for Japanese multinational enterprises to adopt CSR as a management tool and business reality. At the same time, by early 2000, the business associations, universities and government bodies had begun to explicitly define and shape CSR practice. New pressures and a sense of focus came from the announcement of the UN Global Compact in 1999 and European Commission Green Paper on Promoting a European Framework for CSR in 2001.

Today, 2003 is commonly seen as the first year of CSR, the so called CSR-*gannen.*[273] Kyoko Fukukawa[274], of Bradford University, notes that Japanese corporations were exposed to certain CSR-related issues through their globalised operations in Europe and USA. Human rights was one such global concern – gender, diversity and supply chain were others.

In a 2004 *Nippon Keidanren* paper, Hirose states, "many Japanese companies are baffled by the heated level of discussion on CSR in European and US business associations. Unlike corporations in the US and Europe that tend to place importance on short-terms profits for the shareholders, Japanese corporations have long taken a balanced approach to managing their companies, with an eye to the overall stakeholders, including employees, customers, and local citizens, as well as to shareholders."[275]

Non Profit Organisation Law

In March 1998, the Japanese Diet passed a long overdue Nonprofit Organization Law (Law to Promote Specified Nonprofit Activities). This enabled small civic groups to incorporate for the first time in Japanese history.

Technically speaking, there were therefore no nonprofit organisations before the NPO Law. There were, however, many private organisations doing nonprofit work that were incorporated as different types of corporations: public benefit corporations (*Koeki*

Hojin), school corporations (*Gakko Hojin*), social welfare corporations (*Shakai Fukushi Hojin*), readjustment relief corporations (*Kosei Hogo Hojin*), and religious corporations (*Shukyo Hojin*).[276] As a consequence, philanthropic involvement by Japanese companies was and continues to be much more limited than in the English-speaking countries.[277]

Socially Responsible Investment

Japan established its first eco-fund in 1999, the Nikko Eco-Fund, a Japanese equity fund launched by Nikko Asset Management Co., to allow for socially responsible investment based on environmental assessment criteria. Due to an overwhelming response from individual investors, the fund reached an asset valuation of a US$1 billion at the end of a year-long subscription period. Riding on the success of the first eco-fund, by March 2001 five new Japanese equity eco-funds had been launched with similar assessment criteria. As a result the Social Investment Forum (SIF) – Japan was established as a non-profit organisation in November 2003 with the mission to contributing to the spread and development of SRI in Japan.[278]

Demand for SRI and CSR was now coming not only from the domestic scene, but from Western research agencies scrutinising Japanese companies on the triple bottom line[279] and gradually pushing the boundaries on corporate governance and social contribution. Since such screening influenced corporate valuation in capital markets, Japanese companies grudgingly complied.

Meanwhile, at the turn of the century, the rise in corporate scandals both in Japan and the US led to the inclusion of compliance, accountability and disclosure standards into the general mandate of CSR. By 2003, many large corporations had established special units specially dealing with the promotion of CSR-related activities, environmental sustainability reporting, stakeholder engagement and so forth. And in August 2009, the Japanese Ministry of the Environment announced a plan to formulate a set of principles for environmental finance, with the aim to increase eco-conscious investments and environmental finance practices.[280]

The Players

As is clear from the above discourse on the development of CSR in Japan, industry associations were pro-active at every stage of the corporate reform movement and have now taken the lead in promoting and embracing the CSR movement. Government has played a supporting role in providing the legislative and policy framework on several fronts - environmental performance, energy efficiency, pollution control and product quality. The Japanese consumer, though not as aggressive and outspoken as its Western counterpart, has played a quiet role in steering business towards product quality and product innovation by being a demanding and discerning customer.

A. Public Initiatives

Government regulations – Implementation of international regulations

The Japanese government has steered clear of specific provisions that regulate activities in the sphere of CSR. However, of major significance in the CSR context and the Japanese corporations move towards community involvement and philanthropy is the 1998 NPO Law.[281] Revised in 2003, the major aim of the law was to contribute to the advancement of public welfare through volunteers, civil society groups and corporate effort.

Other important standards that regulate the social obligations of companies and relate to their CSR activities include:

- The commercial code,
- The penal code,
- Basic environmental law,
- Basic food safety law,
- The law guaranteeing equal opportunity and treatment of men and women on the job, and
- Regulations regarding the processing of public tenders.

More recently, in April 2009, the Japanese Ministry of the Environment released a Carbon Offset Certification Label to be attached to carbon-offset related products upon being verified by a third-party certification agency. The aim behind the label is to secure the credibility of the carbon offset system and to promote the spread of carbon offsetting products.[282]

In a parallel development in June 2009, Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) announced the establishment of a programme to certify businesses promoting eco-friendly commuting. As part of this programme, the Ministry certifies businesses that contribute to the reduction of carbon dioxide emissions by voluntarily and actively encouraging eco-commuting using public transportation instead of private vehicles. MLIT aims to promote eco-commuting by publicising good practices within these initiatives.[283]

It is important to note that the Japanese Industrial Standards Committee, an agency of the Japanese Ministry of Economy, Trade and Industry, actively participated in drafting the ISO 26000 guidelines to ensure Asian input.

ISO 14001 & Global Reporting Initiative

International environmental standards such as ISO 14001 play an important role in the CSR efforts of Japanese companies. Japan ranks number one in terms of ISO 14001 certifications, significantly ahead of the Western industrialised countries. This reflects the fact that Japanese companies prefer to focus on areas in which their contributions can be statistically measured; interest in social aspects of CSR is significantly less pronounced than in other industrialised countries. This can be explained by the fact that the effect of such efforts on company earnings is unclear, and there is little pressure exerted by stakeholders, particularly NGOs, the public and investors.

In addition to complying with their reporting obligations under corporate law, many Japanese companies report on their CSR activities voluntarily or in keeping with nonbinding reporting standards such as the Global Reporting Initiative. While the focus only a few years ago was clearly on environmental protection, more emphasis is now being placed on sustainable development and a more comprehensive understanding of CSR.

B. Industry Initiatives

Keizai Doyukai

Keizai Doyukai [284], the Japan Association of Corporate Executives, is a private, nonprofit, nonpartisan organisation formed in 1946 by a group of business leaders united by a common desire to contribute to the reconstruction of the Japanese economy. In the more than 65 years since, *Keizai Doyukai* has played a leadership role in improving the Japanese economic community, in seeking to keep Japan competitive in the international sphere and in encouraging business to consider the overall well-being of Japanese society. As mentioned at the start, as far back as 1956 the *Keizai Doyukai* adopted a resolution titled "Awareness and Practice of the Social Responsibilities of Businessmen", and has since played a central role in guiding business behaviour.

In the year 2000, the organisation expressed its support for CSR in its "21st Century Declaration"[285] advocating for corporate responsibility for creating not only "economic wealth" but also "social and human value". The 2003 "15th Corporate White Paper 'Market Evolution and CSR Management: Toward Building Trust and Creating Sustainable Stakeholder Value'"[286] only further reaffirmed their strong commitment to CSR principles.

Nippon Keidanren

Nippon Keidanren[287], the Japan Business Federation, was formed in May 2002 with the merger of *Keidanren* (Japan Federation of Economic Organizations) and *Nikkeiren* (Japan Federation of Employers' Associations). With a membership of 1,603 comprising companies, industrial associations, and regional economic organisations, its mission is to accelerate economic growth, move the Japanese economy towards sustainable development and strengthen value creation within the corporate and business sector.

Keidanren has numerous committees under the following streams:

– Economic and Legal Policy Reform
– Regulatory Reforms and Innovation of Japanese Industries
– Strengthening Technology, Environment, and Energy
– Interaction with Society
– Updating Labor-related Affairs
– Promote International Relations
– Collaborate with Regional Counterparts

On the CSR front, the *Nippon Keidanren* established the Council for Better Corporate Citizenship[288] in 1989, with the aim to support Japanese-affiliated companies throughout the globe in their effort to be recognised as "good corporate citizens" among the local workers, community and other stakeholders.

In 1991, following the real estate and stock market crash, the *Nippon Keidanren* introduced the Charter for Good Corporate Behaviour. The Charter now referred to as a Charter of Corporate Behaviour was revised several times in the 1990s to incorporate corporate ethics and compliance and was revised again in 2004 and 2010 to incorporate CSR.[289] In March 2009, the *Nippon Keidanren* released its Biodiversity Declaration, which includes guidelines on measures to support biodiversity conservation.[290]

In July 2009, five major Japanese blue-chip companies established a corporate leaders' network, called Japan Climate Leaders' Partnership (Japan-CLP) in July 2009, making it the first such organisation in Japan aiming to realise a sustainable low-carbon society from a business point of view. Japan-CLP is calling for other companies to support their vision.[291]

C. NGO Initiatives

Global Compact Local Network - Japan

The Japanese Global Compact Local Network (GC-JN)[292] was officially launched on 21 December 2003, under the stewardship of the United Nations Information Center (UNIC) in Tokyo. In April 2008 GC-JN changed its organisational structure into an independent business-led network with a Local Network Board established to provide strategic direction. With the continued support of UNIC, GC-JN functions as a learning platform in providing Japanese companies with the opportunity to share their corporate responsibility practices. As of September 2011 there were 191 Japanese companies participating in the network.

Foreign NGOs that play a leading role in the international discussion of CSR have more influence on Japanese companies than do local organisations. The media also play an important role, particularly in their reporting on environmental and food safety issues, which is sometimes carried out in close consultation with the government.[293]

Current Status

ISO 26000 Spotlight: Corporate Governance

Under current Japanese corporate law, companies may choose between two distinct systems of corporate governance: the *kansayaku* (statutory auditor) system or the "company-with-committees" system.

As Tokyo Stock Exchange's "White Paper on Corporate Governance 2007" shows, some 97% of listed companies opt for the *kansayaku* system, which effectively gives management almost total autonomy and seldom provides for real, independent supervision of senior management decisions.

A positive trend in Japan is the emergence of "hybrid" board structures, in which one or more external directors are invited onto the boards of companies that still follow the *kansayaku* system and/or where such companies are establishing functional board committees.

Japan is the only major market in Asia that does not mandate some degree of board independence for listed companies (i.e. a minimum requirement for independent directors and an audit committee).[294]

What is interesting in the above discourse is that the push for CSR, subsequent action has come from within the corporate and industrial structure in Japan. The governments' one attempt to legislate CSR through the Commercial Code Revision in 1974/5 was a contentious issue. *Nippon Keidanren* opposed the attempt then and so did the Kansai Economic Forum in 1976 stating that "the problem is one of business ethics, and thus not suited to the character of corporate law."[295] In 2004 Keidanren re-stated its opposition to standardisation or legislation for CSR. Instead it proposed voluntary action by both corporate entities and industry sectors.

In 2003 *Keizai Doyukai* called on its membership[296] to conduct voluntary self-evaluations using an evaluation standard proposed in its 15th Corporate White Paper: CSR in Japan – Current Status and Future Challenges.[297] Nonetheless the survey provides interesting insights into how Japanese business approaches CSR. The *Keizai Doyukai* survey is inward looking, more focused on the operations and management of the company than CSR initiatives with external stakeholders. Similar surveys conducted in India and the Philippines focus on primarily the community engagement and CSR initiatives with external partners.

ISO 26000 Spotlight: Fair Operating Practices

Japan maintains a degree of integrity in government and private business that many other Asian countries can only aim for, but is still far from perfect. Japan has signed the United Nations Convention against Corruption, the world's only universal anti-corruption agreement, but has not yet ratified and officially accepted it.

Japan still has many grey areas with questionable business-as-usual practices. The collusive relationship between government ministries and the private sector has resulted in *amakudari,* the hiring of retired bureaucrats by companies and other organisations that they used to oversee. Similar complex social relationships are entrenched in all Asian countries. The common acquiescence to them can lead to exploitation.

Specifically, 32% of the companies surveyed reported establishing either a dedicated CSR department or CSR committees drawn from various departments, whereas nearly 80% reported establishing a code of conduct and creating an office of compliance. An equal number of companies reported preparing environment reports, however overall a far lower number 23% (but 51% of large corporations) prepared "sustainability reports."

The survey found that the Japanese corporation has far to go when it came to applying CSR standards in the supply chain. Only 13% of responding companies claimed to consider labour standards in addition to environmental responsibility with respect to their global supply chains, few companies went beyond "green" purchasing and procurement for their own operations. Japanese business also comes up short in ensuring workplace diversity (both at the managerial and employee levels), employee training and work-life balance issues.

According to Fukukawa and Moon (2004)[298] government has been a quiet promoter of CSR through administrative guidance suggesting a social course of action. In 2002 a government setup Exploratory Committee of Self-imposed Codes of Conduct published "Building up Consumer Confidence in Business: Guidelines for Corporate Codes of Conduct" to address the relationship of corporate social obligation to consumer well-being. Several government ministries – Ministry of Environment, Ministry of Health, Labor and Welfare are actively engaged in examining and disseminating guidance on issues of CSR. Under the authority of the Ministry of Economy, Trade and Industry, the Japan Fair Trade Commission assesses and guides corporations in rectifying misconduct in both international and national markets.

In October 2006, Nomura Research Institute surveyed consumer opinion on how company CSR activities influence consumers' purchasing decisions. The survey results point to a positive co-relation between the decision to purchase the products of companies and its CSR record. The survey highlights the CSR activities that consumers look for, namely: safety and customer care, environment, corporate governance, local community involvement, employee relations, business success, supplier relations and shareholder relations, in that order.[299]

Moving Forward

In Japan, CSR activities are gradually shifting from conventional to more strategic initiatives from the company's perspective. Conventional activities such as complying with laws and regulations, ethical standards, codes of conduct and governance and international norms are now a matter of routine. Strategic activities are defined by CSR initiatives that directly contribute to cost savings and/or sales. Of importance in Japan is energy efficiency. Reduction of energy consumption or environment load reduction, is not only a product innovation that benefits the environment but is also a cost-saving in the long term.

The May 2009 CSR ranking of Japanese companies by Toyo Keizai[300] ranks Sharp, Toyota, and Panasonic as the top three – all leaders in the environment/ecology category. Today, the environment and ecology are the most important keywords for CSR activities in Japan.[301] Even in harsh economic and business environments companies have been eager to invest and develop environmentally friendly products. Today, innovation for environmental technology is seen as a necessary not only for CSR, but also for business success.

In addition, Fukukawa[302] (2010) concludes that in the current globalised world, corporate communication of CSR practice is essential. But in the case of Japan (and possibly true in other Asian cultures too) there is a strong belief in "good karma" (*intokuyoho*) whereby drawing attention to good practices in fact diminishes the rewards of such actions. There is thus a perceived problem that CSR reporting itself is unnecessary or even a vulgar marketing tool. Nonetheless, according to Tanimoto[303] in the CSR Database 2007 (*Toyo Keizai Shinposha*) 63.2% of 1,071 major companies established a CSR section or department in 2009, compared to 25.6% in 2006. The responsiveness of companies to CSR issues has become increasingly dynamic in the past few years.

Historically, in Japanese society and business, the interests and concerns now associated with CSR have long been embedded in their social interactions and business practices. The adoption of the term CSR by Japan business, academia and media has undoubtedly altered practices and the increased reporting and communication of CSR strategy. This action has been driven by the needs of a global business context.

As is clear from the above discussion, Japanese companies have responded to the growing influence of international organisations and governments that have strengthened their efforts to encourage CSR worldwide. Japanese companies have also watched carefully the growing influence of international civil society groups. Consumer activism and public statements of these groups as in the case of Nike's child labour problem and Royal Dutch Shell's North Sea environment issue have caused Japanese multinationals to rethink CSR. More recently, the Toyota recall points to the importance of community engagement, transparency and accountability issues. Also, global consumer movements and the whole debate on whaling bring home the globalisation phenomena.

Nonetheless, Japan can be seen as attempting to adapt the concept to suit the needs of both their local and global context in equal measure.

11 MALAYSIA

CSR on the Way

Abstract

In Malaysia, a Muslim majority country, the main form of giving has been *Zakat* [304], one of the five pillars of Islam. *Zakat* is a form of "giving tax" which covers several different categories, some of which are business, wealth, livestock and gold & silver. In addition, the Chinese and Indian communities too have ethnicity-based giving and volunteering.

The focus on CSR in Malaysia today draws its antecedents from the Wawasan 2020 or Vision 2020, an ambitious development plan set out in 1991, by then-Prime Minister Mahathir Mohamed. More recently the Vision 2020 was presented as, "The ultimate aim of the Vision is to establish a nation that is united, a Malaysian society infused by *strong moral and ethical values*, democratic, liberal and tolerant, *caring*, *economically just and equitable*, progressive and prosperous. All these goals are of course underpinned by an economy that is competitive, dynamic, robust and resilient (italics ours)."[305] Although not articulated in the modern day terminology of CSR, the underlying sentiment clearly calls for the adoption of the tenets of CSR.

In Malaysia, the government has been the main driver in pushing the CSR agenda since the 1997 Asian financial crisis. Corporate governance reform, followed by financial sector reform and a National Integrity Plan are all measures that sought to encourage the business sector to embrace CSR. Most recently, the government put out the Silver Book, a guide for government-linked companies on how to articulate and manage a company's social obligations.

Bursa Malaysia has been the other force behind urging public-listed companies to integrate sustainability elements into their business strategies, hence advancing responsible business philosophy and practices.

Despite government efforts, the Malaysian business entity still continues to lag behind in international best practice norms in the marketplace, workplace and environment, with some progress on the community dimension, though still with charity and philanthropy in mind.

Background

- Gross Domestic Product $237.80 Billion US dollars (at current prices).
- Population: 28.40 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): $7,760.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 42.[306]

Historical Context

"Ethnicity has been asserted as the dividing line in Malaysian society. Populations can identify by their culture, their mother tongue, their religion and their locality."[307] For centuries, Malaysia's multicultural society has been divided along ethnic lines and hence has a tradition of giving and sharing that reflects traditions, practices and institutional structures of the country's diverse cultures and religions.

In Bahasa Malaysia, the national language, "philanthropy" translates to "sukarela" which combines two words, "suka" meaning liking or loving and "rela" meaning willing or sacrificing. So philanthropy essentially means "love for sacrifice" or sacrificing with love.[308] In addition in Malaysia, a Muslim majority country, the main form of giving has been *Zakat*[309], one of the five pillars of Islam. *Zakat*, a form of "giving tax" which covers several different categories, some of which are business, wealth, livestock and gold & silver. Charitable giving is hence a way of life. The Chinese and Indian communities too have ethnicity-based giving and volunteering, be it clan foundations or religious temples.

Gotong royong, originating from the Malay culture, has been practiced since pre-colonial times, as it is in Indonesia. The spirit of *gotong royong* - mutual and reciprocal assistance or working together for the welfare of all - is still very much evident in community services e.g. patrolling and safeguarding the neighbourhood from outside threats, preparing feasts for marriage and other social and religious occasions or celebrations.[310]

Development of CSR

Exhibit 11.1: CSR Timeline of Malaysia

Date	Milestone
1991	Vision 2020 and tabled in the Sixth Malaysian Plan.
2000	Malaysian Code on Corporate Governance introduced.
Mar 2001	Financial Sector Master Plan was launched by the Bank Negara Malaysia, included elements of corporate governance.
2004	Malaysian government launched the National Integrity Plan and the Malaysian Integrity Institute.
2004	Creation of the new Ministry of Energy, Green Technology and Water.
Sep 2006	"The Silver Book"[311], published by the Putrajaya Committee for government-linked companies (GLCs) Transformation, set out CSR guidelines for GLCs. Bursa Malaysia, the country's stock exchange, launched a framework for the implementation and reporting of CSR activities of listed companies.
Nov 2006	Institute of Corporate Responsibility Malaysia founded.
2007	Malaysian Code on Corporate Governance reviewed.
2008	Bursa Malaysia's Baseline Survey.
Mar 2009	Malaysian Local Network, the focal point for the UN Global Compact, achieves independent status.
Nov 2010	Bursa Malaysia launched a Business Sustainability Programme for Corporate Malaysia encouraging public-listed companies to integrate sustainability elements into their business strategies.
Dec 2010	Bursa Malaysia announced that it would launch an environmental, social and corporate governance index by 2012, as a catalyst to attract more socially responsible investment funds into Malaysia.

Wawasan 2020

The focus on CSR in Malaysia has increased in recent years, in line with international trends and global pressures. Although several companies have CSR programmes that go back many years, in some cases decades, the terms “corporate social responsibility” and “sustainable economic activity” are new.

In 1991, resource-rich Malaysia set the goal of becoming a developed economy by 2020. An ambitious development agenda was defined in “*Wawasan 2020*” or Vision 2020 and tabled in the Sixth Malaysian Plan 1991-1995, presented by then-Prime Minister Mahathir Mohammed.

Vision 2020 called for a self-sufficient industrial, Malay-centric developed nation, complete with an economy that would be eightfold stronger in 2020, than the economy of the early 1990s. In Mahathir’s words “By the year 2020, Malaysia can be a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient.”[312] He defined the vision as a series of nine central strategic challenges that Malaysia would have to overcome to realise it.

This holistic approach set out two decades ago, underpins the modernisation vision and the government’s role in demonstrating its commitment to achieving economic progress, consistent with good personal values and corporate ethics. Though not articulated in the modern day terminology of CSR, the underlying sentiment clearly calls for the adoption of the tenets of CSR with the expectation that all sectors of the economy would embrace such action.

Role of Corporate Governance Reform[313]

Following the Asian Financial Crisis in 1998, the government established the Finance Committee on Corporate Governance comprising both government and industry. The same year, the Malaysian Institute of Corporate Governance was established with the mandate to raise the awareness and practice of good corporate governance in Malaysia.[314] In 2000, Malaysian companies first introduced the “Malaysian Code on Corporate Governance” (Code). The Code was drawn up in cooperation with government and political leaders, and marked a significant milestone in corporate governance reform in Malaysia. The Code established principles and best practices of good governance and described optimal corporate governance structures and internal processes.

In 2007, the Code was reviewed, through the collaborative efforts of government and industry, to further strengthen corporate governance practices in line with developments in the domestic and international capital markets. Key amendments to the Code are aimed at strengthening the board of directors and audit committees, to ensure that they discharge their roles and responsibilities effectively.[315]

Financial Sector Reform

In February 2001, complementing the corporate governance effort was the introduction of a Capital Market Master Plan by the Securities Commission, to chart the direction of the Malaysian capital market for the next ten years. In March 2001, the Financial Sector Master Plan was launched by the Bank Negara Malaysia to chart the future direction of the financial sector over the next ten years. The Plan included elements of corporate governance namely, promoting shareholder and consumer activism; regulatory control and priority sector financing; and recommended the introduction of board committees to further improve corporate governance.

The National Integrity Plan

In keeping with its proactive role, in 2004, the Malaysian government launched the National Integrity Plan (*Pelan Integriti Nasional*) and the Malaysian Integrity Institute (*Institut Integriti Malaysia*).[316] The National Integrity Plan defined five targets, for the first five years, namely:

- Effectively reduce corruption, irregularities and abuse of power;
- Enhance efficiency in the public service delivery system and overcome bureaucracy;
- Enhance corporate management and business ethics;
- Strengthen the family institution;
- Improve the quality of life and wellbeing of the society.

The Malaysian Integrity Institute serves as a managing agency with responsibility for the planning, implementation, coordination, monitoring and evaluation of the integrity plan.

Although, the regulators have created a commendable framework for corporate governance, Malaysian corporations have yet to achieve a satisfactory level of corporate governance practice and compliance.

Ministry of Energy, Green Technology and Water

In addition to an increasingly pro-active role in the promotion of CSR in the country, policymakers have lent their support to such values as sustainability and environmental protection, leading to the creation, in 2004, of the new Ministry of Energy, Green Technology and Water.[317] The Ministry's role is to administer and manage the nation's energy, communications (infrastructure), postal services and water functions. The main thrust is to facilitate and regulate the growth of industries in these sectors to ensure the availability of high quality, efficient and safe services at a reasonable price to consumers throughout the country. The regulatory function of the Ministry is undertaken through its regulatory bodies, namely, the Energy Commission and the Communications and Multimedia Commission.

The Players

A. Public Initiatives

The Silver Book – CSR framework for GLCs

The government's increasing focus on CSR resulted in the development of a new framework for implementation of CSR initiatives for the country's businesses. "The Silver Book"[318], published by the Putrajaya Committee for Government Linked Companies (GLC) Transformation in September 2006, set out guidelines for GLCs, with *Khazanah Nasional Berhad*[319] responsible for monitoring GLC implementation of CSR measures in accordance with the framework.

The Silver Book, launched by the Government of Malaysia to enhance the performance of GLCs, "… is a set of principles and guidelines to be implemented by GLCs so they can pro-actively contribute to society while still creating value for the shareholders. The Silver Book also guides GLCs on how they can clarify and manage any social obligations. Contributions are not just about philanthropy or donating money to charitable causes or even meeting an external set of compliance criteria on CSR. Rather, it is about creating benefits to society as an integral part of a company's business and operations with the opportunity to derive a competitive or commercial advantage for the company itself."

Despite efforts by the government, compliance with the Silver Book requirements is still weak. Nevertheless, as demonstrated below, the stock exchange is proving to be one of the most powerful forces driving CSR in Malaysia.

B. Private Initiatives

Bursa Malaysia

In 2001, Bursa Malaysia[320], the country's stock exchange, mandated disclosure on corporate governance practices of listed companies. Further, Bursa Malaysia launched a framework for the implementation and reporting of CSR activities of listed companies in September 2006. The CSR framework defines four main focal areas for CSR practice, identified as the environment, the workplace, the community and the marketplace. Subsequently, it mandated disclosure on CSR in 2007.

In November 2010, Bursa Malaysia launched a Business Sustainability Programme for Corporate Malaysia encouraging public-listed companies (PLCs) to integrate sustainability elements into their business strategies. It also published a guide to understanding the value of sustainability practices for senior management: "Powering

Business Sustainability – A Guide for Directors", a push to adding CSR to the boardroom agenda. The introduction of the Sustainability Knowledge Portal[321] provides an online resource on the latest global sustainability frameworks, case studies, opinions and other relevant research on CSR.

In addition in December 2010, Bursa Malaysia announced that it would launch an environmental, social and corporate governance (ESG) index by 2012, as a catalyst to attract more socially responsible investment (SRI) funds into Malaysia. "The index will encourage the level and quality of disclosures on ESG issues in listed companies to rise and subsequently attract global SRI funds to invest in them," said Bursa Malaysia's chief regulatory officer Selvarany Rasiah to StarBizWeek. She also said Bursa was hopeful that the index would encourage more listed companies to enhance their corporate governance and business sustainability practices.[322]

Speaking at the launch of the above initiatives, Chairman of the Institute of Corporate Responsibility (ICR) Malaysia, Dato Johan Raslan, revealed that 71% of directors in the country believe that government should be the main driver, with financial institutions and banks also taking the lead.[323]

C. Industry Initiatives

Institute of Corporate Responsibility (ICR) Malaysia[324]

Founded in November 2006, ICR Malaysia is a network of corporate institutions committed to advancing responsible business philosophy and practices with a positive impact on people, environment and society. The network is supported by an advisory panel comprising the Securities Commission Malaysia, Bursa Malaysia and *Khazanah Nasional Berhad*, with the Securities Industry Development Corporation acting as secretariat. ICR Malaysia's work focuses on capacity building, research, and sharing of corporate responsibility best practices and resources.

D. NGO Initiatives

Malaysian Local Network

The Global Compact initiative was pioneered in Malaysia by the UNDP in 2003, and further promoted by the Caux Round Table since 2007. The Malaysian Local Network, the focal point for the UN Global Compact, achieved independent status only in March 2009. In 2010 the Local Network[325] produced a new Constitution and organisational structure, facilitating the expansion of the network and promotion of the Global Compact's Ten Principles within Malaysia. As of October 2011, 52 Malaysian companies were active participants of the Global Compact.

CSR Awards

Over the past ten years, awards for good practices in the area of CSR have been given out in an effort to raise awareness among both businesses and civil society.

- Association of Chartered Certified Accountants Malaysia Sustainability Reporting Awards[326]: ACCA MaSRA, previously known as ACCA Malaysia Environmental and Social Reporting Awards was first introduced in Malaysia in 2002, with the aim to encourage the uptake of sustainability (or corporate responsibility) reporting among companies in Malaysia. Through the Awards, businesses are encouraged to report on the impact of their business operations on the environment and society they operate in and raise the awareness of corporate transparency issues. The Award is endorsed by AccountAbility, Bursa Malaysia Berhad, Business Council for Sustainable Development in Malaysia and the Department of Environment of Ministry of Natural Resources and Environment and supported by CorporateRegister.com.
- Prime Minister's CSR Award[327]: The Prime Minister's CSR Awards was launched by the Ministry of Women, Family and Community Development in 2007 in order to recognise companies that have made a difference to the communities in which they are active through their CSR programmes. There are eight categories for these awards and one overall award for the Best CSR Programme. The categories are: community & social welfare, culture & heritage, education, empowerment of women, environment, small company CSR, best workplace practices and best CSR media coverage.
- Ansted Social Responsibility International Award (ASRIA)[328]: The Ansted University Foundation International Board founded the ASRIA in 2004 recognising responsible individuals, families, corporations/organisations, institutions and NGOs working together in collaboration to promote world peace through social responsibility.
- StarBiz-ICR Malaysia Corporate Responsibility Awards[329]: Launched in January 2008, this initiative is the result of a partnership between The Star (a Malaysian daily newspaper) and Institute of Corporate Responsibility Malaysia, together with its working partners, ACCA, PricewaterhouseCoopers and Securities Industry Development Corporation. The award highlights the significance and importance of responsible business practices in Malaysian companies. The award takes into consideration issues of governance and ethics and also adheres to the triple bottom line approach, which expands the traditional reporting framework to take into account environmental and social performance as well as financial performance. It is supported by the Securities Commission Malaysia and Bursa Malaysia Berhad.

Growing interest in this topic is also reflected in the media and in civil society - newspapers report on CSR projects, and public criticism of companies that fail to live up to their responsibilities is more common. A CSR Asia feature article on the media's perspective on CSR[330] concludes that its understanding is superficial and most often equated to corporate philanthropy and charitable giving.

However, of note is the fact that companies under pressure from civil society, domestic or international, have a more comprehensive CSR strategy. The active involvement of Malaysian plantations in the Roundtable on Sustainable Palm Oil is a good example. As elsewhere, companies that are part of the global supply chain of multinationals or local office of MNCs tend to adopt the CSR practices of the parent company.

Despite the pro-active stance taken by the government and industry bodies in promoting CSR, academic and action-research tells a different story. Furthermore, there is a chasm between CSR awareness and reporting in Malaysia. CSR is still predominantly handled by public relations and/or communications divisions. Involvement at the board level is still limited to very few large companies such as those involved in the Malaysian Local Network.

Current Status

Bursa Malaysia's Baseline Survey [331]

Bursa Malaysia, in keeping with its current position as the main driver of CSR in Malaysia, commissioned CSR Asia to do a baseline survey in 2008, on the status of CSR in Malaysia for the year 2006-2007. The survey analysed the responses of a sample of 200 companies covering the four dimensions defined in the CSR framework launched by Bursa Malaysia in 2006 – marketplace, workplace, environment and community.

The survey results show that Malaysian publicly-listed companies (PLCs) on average fell short of international best practice norms and needed to increase their level of awareness, practice and reporting of CSR. Nearly two-thirds of the PLCs surveyed were ranked average or below, with only 4.5% of PLCs meeting international best practice norms and 9% categorized as "good."

PLCs that scored the best were, not surprisingly, predominantly from sectors that are in the global spotlight and in some ways need a "license to operate." They also tend to be highly regulated, namely, the natural resource sector, with its concomitant social and environmental impact; and the so-called "sin" industries, namely alcohol, gambling and tobacco. The construction industry stands out, exhibiting little or no engagement on CSR issues.

Of the four dimensions of the CSR framework, workplace ranked highest with environment at the bottom and marketplace and community taking the second and third position respectively. The survey also found a lack of understanding around key CSR concepts of supply chain management, product responsibility and stakeholder engagement. Diversity - gender, ethnicity, religion – too is a little understood concept with scant attention paid to it. Low scores on the CSR survey indicated that most companies are lagging behind the aspirations of the government and regulators in terms of CSR.

It is important to highlight the findings on the marketplace dimension in more detail, in light of the fact that the government and other industry groups like the Bursa Malaysia have pushed the CSR agenda for a few years now. In Malaysian PLCs, CSR has still to reach the board level in most companies, unlike most other countries in Asia, except perhaps Indonesia. Further, less than half of the companies made CSR disclosures, despite government initiatives to mandate such reporting.

The quality of reporting from companies that do report their sustainability and citizenship initiatives is poor and the major focus is on narrative stories rather than strategy, objectives, targets and performance data. Corporate giving and philanthropy is equated to CSR, while other issues of supply chain, product or service quality, responsible marketing, stakeholder engagement and governance are not seen as issues to be reported on in a CSR report.

What is surprising is the low level of awareness and reporting on the environmental impact of a company's activities keeping in mind the global focus on energy efficiency, water scarcity, climate change and environmental pollution of land, water and air, and the fact that Malaysia is a country rich in natural resources. Nearly 25% of companies surveyed did not report on environmental issues at all.

As mentioned earlier, industries in the spotlight tended to be better at ESG reporting. Not surprisingly, according to CSR Malaysia[332], the country ranked 52 out of 57 in the 2009 Climate Change Performance Index, an instrument that evaluates and compares the climate protection performances of countries that are responsible for 90% of global energy-related CO_2 emissions. Malaysia surpasses other ASEAN countries like Indonesia, Philippines, Thailand and Vietnam in terms of per capita energy consumption.

In June 2008, Malaysian airlines in collaboration with the Ministry of Natural Resources and Environment and the Forest Research Institute Malaysian (FRIM) set up a voluntary carbon offset scheme. Proceeds from the offset programme will be channelled to a trust fund managed by the FRIM, which acts on behalf of the Ministry of Natural Resources and Environment. Funds will be used on selected UN-sanctioned forest conservation projects in Malaysia.[333]

In 2009, the Malaysia Institute of Architects together with the Association of Consulting Engineers Malaysia founded Malaysia's Green Building Index to develop and drive a more sustainable and green architecture.

It should be highlighted here that the "community" dimension, more often than not, translates to corporate philanthropy and giving. Moreover, community investment is not strategic, participation of community stakeholders is limited and programme monitoring and measurement of impact and output is seldom on the agenda. Few companies align their CSR agendas with the UN Millennium Development Goals, and just 52 Malaysian businesses are active signatories to the UN Global Compact as of October 2011.[334]

The most recent StarBiz-ICR Malaysia Corporate Responsibility Awards 2010 held in March 2011344, provides an insight to the state of CSR disclosure of corporate Malaysia, which to a large extent corroborates the above discussion.

In 2010, only 165 public listed companies chose to disclose their CSR initiatives by participating in the Awards, a significant decline from previous years. Companies were judged according to performance in four categories - Marketplace, Workplace, Environment and Community. The judges found most companies had satisfactory formal corporate governance structures in line with Bursa Malaysia's Corporate Governance Framework and have in place ethics policies. However, there is little evidence of monitoring and enforcement of these policies.

In the workplace category, training and development remained a focus area, but judges found there was room for improvement in respect of other basic workplace policies, such as diversity, non-discrimination and human rights policies. About half of the companies address the issue of occupational health and safety, but there appears to be no real connection between the risks posed by the activities of the companies and the efforts made to mitigate them.

The environment remains the weakest category and judges saw no significant improvements recorded in the number of companies setting environmental targets and there appears to be little correlation between sector impact and environmental performance. Generally, judges found a lack of understanding and disclosure on the significance of biodiversity and its management. However, green office initiatives including going paperless and adopting the 3Rs (reduce, reuse, recycle) approach are popular initiatives among companies.

In the community category, companies have made significant and tangible efforts to raise the well being of the local community, and many provide financial support to NGOs and encourage employee volunteerism. However, companies failed to connect community investment to National Development Goals or to the UN Millennium Development Goals. Measuring the impact of community investment, always a challenge, is remarkably low as it is in other Asian countries.

The government and regulators come out as the main drivers of CSR in Malaysia. With sustainability explicitly stated as one of three key goals in the New Economic Model unveiled in 2010, the Malaysian government and Bursa Malaysia are seen as the engines driving CSR adoption in the country.

The Case of the Roundtable on Sustainable Palm Oil (RSPO)

The emergence of palm oil into the Malaysian economy in the 1950s-1960s changed not only the landscape of Malaysian agriculture and the economy but the lives of the local population. In 1957, at the time of Malaysian independence, two primary commodities, tin and rubber accounted for more than 50% of then-Malaya's GDP. Palm oil was introduced to diversify the export base when the discovery of synthetic rubber led prices of rubber to crash, drastically reducing the Malayan GDP.

Today, the palm oil industry in Malaysia forms part of the economic base for the country's current wealth and its subsequent social, political and economic stability as well as the post-independence prosperity.[335] Against this backdrop it is important to see that Malaysian palm oil plantation owners have stepped forward to ensure sustainability and responsibility within the palm oil sector in the country.

RSPO however, throws a different light on Malaysia's involvement in the sustainability debate. RSPO is a not-for-profit association with stakeholders from seven sectors of the palm oil industry - oil palm producers, palm oil processors or traders, consumer goods manufacturers, retailers, banks and investors, environmental or nature conservation NGOs and social or developmental NGOs. Headquartered in Zurich, Switzerland, the secretariat is currently based in Kuala Lumpur with a satellite office in Jakarta.

The RSPO was launched in 2003 with the objective of promoting the growth and use of sustainable oil palm products through credible global standards and engagement of stakeholders. The aim is to establish ethical and ecological standards for palm oil production that are acceptable to all sectors of the palm oil industry and a system for verifying and certifying palm oil that meets these criteria. One of the goals is to "verify that any claims of using or supporting RSPO-certified palm oil made by end-product manufacturers or processors are genuine."[336] The association spent three years, first piloting the Principles and Criteria (P&C) that would establish a credible definition of sustainable palm oil production that were adopted in 2005; and approved a revised and final P&C at the RSPO General Assembly in November 2007. Malaysia is the largest producer and supplier of palm oil globally, followed by Indonesia.

As a result in 2010, about 65% of the 3.2 million tonnes of global certified sustainable palm oil came from Malaysia, said RSPO executive director Jeremy Goon Kin Wai, with the remaining 35% coming from Indonesia and Papua New Guinea.[337] Currently, certified sustainable palm oil makes up only 7% of the global palm oil production of 45 million tonnes in 2010.

The RSPO though is not without controversy. The "palm oil paradox" of wildlife versus economic development, now has a second dimension, that of human consumption versus bio-fuel demand. Some critics have labeled RSPO as a green-washing initiative rather than a genuine effort to improve the environmental performance of palm oil. Given the increased demand for "environmentally friendly" bio-fuels and the concomitant increase in demand for palm oil has led to widespread deforestation. RSPO members have rejected these charges, but concede that the certification process is still evolving.[338]

The jury is still out on the effectiveness of the RSPO. The Greenpeace report "Cooking the Climate"[339] notes that members of the RSPO both producers and users of palm oil continue to condone unsustainable forest and peat land destruction as the demand for palm oil increases worldwide.

Moving Forward

In Malaysia, what is surprising is the near absence of English language writing on any "historical roots of CSR" as exists in other countries in Asia and elsewhere. Reviewing the available body of knowledge on awareness of CSR in Malaysia, of note is the focus of a majority of the research along ethnic and educational levels of managers; executive and management attitudes; ethnic origins and religious orientations of managers; ownership structure and institutional or state pressure. The overwhelming conclusion of these surveys is that CSR is still seen as an unwanted cost and has yet to reach the boardroom. Despite the global spotlight on the environmental performance of business, environmental consciousness in Malaysia is sorely inadequate.

Speaking at the ACCA Malaysia Sustainability Reporting Awards 2009, Deputy Finance Minister Datuk Wira Chor Chee Hueng said, "Local companies, both public and private, have not fared well compared with their British and Australian counterparts in terms of being socially and environmentally friendly."[340] He noted that there was a lack of awareness among local firms when it came to the importance of environmental sustainability.

In addition, Malaysia fares poorly on the practice of corporate governance (CG). As the Credit Lyonnais Securities Asia-Asian Corporate Governance Association CG Watch 2010 survey points out that nowhere in Asia have governments done much in terms of regulation and enforcement of CG rules, yet the CG culture in Malaysia has in fact regressed marginally, implying the change in approach and outlook in the boardroom is yet to come.

12 PHILIPPINES

The *Bayanihan* Way

Abstract

In Tagalog, the term "*bayanihan*" captures the spirit of communal unity and is often cited as the precursor to the more formal corporate philanthropy and CSR as we know it today. The involvement of Filipino businesses in the community around it goes back to the time when it was the practice of wealthy families to give donations to the Church and charitable institutions.

The practice of corporate citizenship emerged during the late 1960s as a business response to growing social unrest. With the activism of the 1960s and the 1970s, and the emergence of the concern for the environment in the 1980s and 1990s, corporate philanthropy took on a new meaning. With the coming of the 21st century, businesses have become more pro-actively involved not only in the economic affairs but also in the socio-political affairs of society, mainly through their CSR programmes and efforts.[341]

The Philippines is unique in Asia with a high level of coordination and cooperation within the business sector in its involvement in community and social development initiatives. The first such effort dates back to the founding of the Philippines Business for Social Progress in 1970, the first organised model of corporate engagement in the social development of the country. In addition, the Philippines probably leads the region in the setting up of foundations by big businesses to implement their social development and cultural initiatives.

Unlike other governments in the region, the Philippines government is not very visible in promoting and encouraging CSR. Filipino businesses widely consider that the government has a responsibility to draw up regulations, grant incentives, and provide a friendly political climate. There is an expectation that government should steer business towards areas where help is needed and help in the search for partners in development programmes.

Background

– Gross Domestic Product: $199.589 Million US dollars (at current prices).
– Population: 93.62 million people.
– Gross National Income (based on Purchasing Power Parity international dollars): $2,050.
– Number of businesses actively communicating on their progress as UN Global Compact signatories: 8.[342]

Historical Context[343]

Business responsibility in the Philippines has historically been reflected through the deeply ingrained Filipino values of "*bayanihan*", loosely described as the "cooperative spirit" or the "spirit of volunteerism". Over time, this practice has evolved within and across kinship networks, church organisations and social welfare agencies.

The strong influence of the Roman Catholic Church on personal, state and economic affairs paved the way for business altruism, as did the creation of the Philippines Corporation Law in 1906 recognising family foundations and civil society organisations. Companies big and small early in the post-independence phase recognised the merits of sharing their gains with the community around them.

The words "corporate social responsibility" may have entered the Philippines consciousness only over the past 10 years or so, but the practice of companies going beyond profit and reaching out to their communities has been around for far longer. As early as the 1900s, companies made sure that their employees and their families were well taken care of. In some cases, companies were simply driven to share their gains with their neighbours, a reflection of the "*bayanihan*" spirit.[344]

A more formalised trend started in the 1950s when mining companies were the first to engage with local communities and provide for the infrastructure need in the communities in which they operated. The extensive road network, schools and other public works still found today in the mining communities in northern Luzon and Mindanao are some of the enduring signs of those times. Back then, there was no real or carefully-crafted strategy behind community involvement but one major incentive was to avoid opposition from the indigenous peoples as they entered ancestral lands. Realising that they had a wider responsibility and a moral obligation to help those in need, these private firms eventually expanded their reach to include the communities outside their gates.

Historically, outside of the aforementioned examples, corporate engagement was largely in the form of philanthropy and very often one-off donations when asked for assistance. Right up to the 1960s, department units handling community relations, funded programmes and projects far removed from the core activities of the enterprise.

However, the massive public demonstrations in the early 1970's (post-oil shock) and the imposition of Martial Law steered community relations into a whole new direction. With a large majority of the population now pushed into poverty, with students and the Communist Party of the Philippines denouncing big business as exploitative, leaders of the largest corporations realised that their businesses could not be sustained in the midst of civil strife. Thus was born the first organised model of corporate involvement in social development in the Philippines – the Philippines Business for Social Progress[345] (PBSP), in 1970.

Development of CSR

Exhibit 12.1: CSR Timeline of the Philippines

Date	Milestone
1970	Philippines Business for Social Progress started.
1991	Philippines Business for Social Progress established the Center for Corporate Citizenship
1992	Philippine Business for the Environment established.
1996	League of Corporate Foundations, Inc. founded.
2001	Philippines Central Bank issued two circulars imposing minimum requirements for the qualifications of bank directors, and outlining the duties and responsibilities of the board.
2007	Asian Institute of Management Ramon V. del Rosario Sr. Center for Corporate Social Responsibility conducted a survey[346] entitled "State of Corporate Citizenship in the Philippines."
2007	League of Corporate Foundations established the Corporate Social Responsibility Institute.
2009	Study of Corporate Governance Trends in the 100 Largest Publicly Listed Companies in the Philippines released.

In the Philippines the 1970s and 1980s are often referred to as the decades of involvement – the rise of the NGOs and civic participation, and later the rise of the Peoples' Power movement. In addition, in the 1990s came the pressures of globalisation and the Asian currency crisis, further pushing the boundaries of businesses involvement and interaction with the community in which it operates.

A 1996 study of corporate philanthropy linked the evolution of businesses involvement in stages representing a decade-based transformation.[347] In 2005, the original evolutionary stages were slightly modified[348] to include business-civil society partnerships and engagement. CSR in the Philippines has evolved over the last five decades from:

- The Decade of Donations (1960s) when social involvement was uncomplicated. Companies helped ease social problems by giving charitable institutions donations in cash and in kind;
- The Decade of Organisation (1970s) saw the rise of the NGO sector and civic participation. In addition, a number of business associations/organisations were established to address the common concerns of the poor.

- The Decade of Involvement (1980s) when companies responded to civic movements giving voice to the man on the street and offered services to communities. Community relations sought to improve economic conditions by promoting peaceful business operations and increased the range of company-to-community activities and services and the financial amounts as well.
- The Decade of Institutionalisation (1990s) highlighted the emergence of corporate citizenship from being a simple public relations effort to a more strategic effort within the management hierarchy; and finally,
- The Decade of Engagement (2000s) corporate engagement with diverse stakeholders – community, NGOs, the State, international organisations and other businesses partners - is characterised by integration of values, goals, resources, and skills between business and other sectors.

The stages of evolution of corporate engagement suggests some form of progression, nevertheless, an integrated and embedded form of CSR is still limited to a few examples. More often, CSR continues to be equated to philanthropy and corporate involvement in social development.

The Players

CSR in the Philippines remains relatively young, with a diverse group of players moving the CSR agenda forward.

A. Public Initiatives

The 1997 Asian Financial Crisis led to a call for greater transparency and accountability from corporations and businesses world over. Unlike other governments in the region, the Philippines government is not very visible in encouraging CSR. However, businesses widely agree that the government has a responsibility to draw up regulations, grant incentives, and provide a friendly political climate. There is an expectation that government should also steer business towards areas where help is needed and assist in identifying partners for development.

Securities Exchange Commission

In the Philippines, attempts to reform corporate governance began in 2000 with the passing of the Securities Regulation Code. The new law strengthened the enforcement powers of the Securities Exchange Commission (SEC), clarified insider trading and market manipulation rules, and increased the protection offered to minority shareholders. In 2001, the *Bangko Sentral ng Pilipinas* (Philippines Central Bank) issued two circulars imposing minimum requirements for the qualifications of bank directors, and outlining the duties and responsibilities of the board.

In April 2002, following the Enron and WorldCom corporate scandals that rocked the financial world, the SEC issued a circular entitled "Code of Corporate Governance."[349] Its purpose was "to actively promote corporate governance reforms aimed to raise investor confidence, develop capital market and help achieve high sustained growth for the corporate sector and the economy." The Code, which is applicable to all publicly listed corporations, primarily addresses the composition and responsibilities of a board, the qualifications and responsibilities of a director, the protection of shareholders' rights, the disclosure of material information, the implementation of a performance evaluation system for directors and top management, and the adoption of a manual on corporate governance.

ISO 26000 Spotlight: Environment

In the Philippines, anti-pollution laws[350] such as the Clean Air Act of 1999 (RA 8749), Ecological Solid Waste Management Act of 2000 (RA 9003), the Clean Water Act of 2004 (RA 9275), and the Toxic Substances and Hazardous and Nuclear Waste Act (RA 6969) all point to government efforts at guiding the business sector towards responsible behaviour. Numerous others[351] are under deliberation in Congress, together with an Ecological Policy Act first introduced in the House of Representatives in 2007, to harmonise the disparate laws pertaining to the environment.

In 2007, when Representative Cabilao introduced the Ecological Policy Act in Congress, he stated, "The Philippine legislature has enacted several comprehensive legislations dealing with the environment and natural resources. Nevertheless, we see that the Philippine environment situation continues to deteriorate. Despite the enactment of new legislation intended to protect and promote proper management of different areas of the environment, degradation continues and deterioration has reached alarming levels. One of the primary reasons for the seemingly ineffective presence of these laws is the fragmentation of environmental laws into sectoral concerns. These laws tend to address only specific environmental concerns and are derived more from the nature, circumstances and needs of particular sectors. There is no over-arching policy that connects and weaves these various sectoral legislations."[352]

The country has a good set of laws around environment, consumer protection[353], and corporate governance (as seen above). According to Antonio Oposa, Jr., Attorney with the Philippine Ecological Network, the Philippines has one of the most voluminous set of environmental laws in Asia. He adds that the legal framework of environmental law is sufficient in substance and in form, but the state lacks the will and many times the ability to enforce the laws.

In September 2009, Philippines lawmaker Dato Arroyo proposed a Corporate Social Responsibility Act of 2009[354] requiring corporations to consider the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

According to the proposed bill, the Philippine government would coordinate its various agencies and non-government organisations to work hand-in-hand for the integration, promotion, and strengthening of corporate social responsibility in all business organisations. Under the bill, the Department of Trade and Industry in coordination with the Securities and Exchange Commission, Department of Environment and Natural Resources and the Department of Labor and Employment would promulgate the rules and regulations and regularly monitor strict compliance.

B. Private Initiatives

Philippine Business for Social Progress (PBSP)

PBSP, a non-profit consortium of corporations, aims to empower the community by promoting business sector leadership in, and commitment to, programmes that lead to self-reliance. Addressing the Philippines business community in 1970, prominent economist and businessman Sixto K. Roxas, III insisted that, "To the extent that the businessman's economic activities generate an imbalance in society and create social tensions he must undertake social development programs which respond to these social problems." [355] Roxas recalls that the common motivation was fear and the Philippines business community needed to find and promote what Roxas refers to as "viable and self-sustaining social development projects — not charity projects, that are socially acceptable but which do not meet the business hurdle rates."[356]

Launched with a membership of 50 corporate enterprises, the membership has steadily grown over four decades to 230 companies, with support for the organisation coming from members committing 1% of pre-tax net income to social development. Originally three-fifths of this was administered by PBSP, with the remainder being used by each member for its own social programmes. However, in reality the amount passed on to PBSP stood at one-fifth of 1% in 1989. In addition, financing over time has included leveraging of funds from other donors by undertaking co-financing programmes.[357]

PBSP started out as a vision: a dynamic business community, responsive and committed to the task of helping the poor, and to this end established the Center for Corporate Citizenship in 1991. PBSP seeks to be the leader in promoting business sector commitment to social development and more recently leads the advocacy on and the practice of corporate social responsibility and corporate citizenship. Today, it is the nation's largest and only corporate-led social development foundation, the only one of its kind in Asia and perhaps the world.

League of Corporate Foundations, Inc.

In 1996, LCF[358] was founded by a group of 13 corporate foundations and a nation-wide network of NGOs to look afresh at the issues facing philanthropic and community foundations in an age when companies were being scrutinised as never before on their standards of environmental sustainability, ethical behaviour, governance structures, supply chain and product quality. Today, the LCF is a membership association of 75 operating and grant-making corporate foundations and corporations, seeking to provide business solutions to social problems in the Philippines through CSR.

LCF established the Corporate Social Responsibility Institute (CSRI) in July 2007 as one of its flagship programmes. CSRI is LCF's capacity development arm, designed to institutionalise learning processes and systematically organise sharing of information, experiences, best practices and lessons learned with the existing CSR practitioners, academia, students, business entities, both large and small, civil society organisations and the general public.

The major objectives of the Institute are:

– Academic Development: The integration of CSR in the educational curriculum. Working with various educational and industry associations, CSRI develops CSR syllabus, conducts faculty development training and builds up teacher training materials.
– Professional Development: CSRI conducts specialised seminars, workshops and events to deepen the skills of existing and upcoming CSR practitioners.
– Research and publications: CSRI seeks to advance the knowledge and practice of CSR to support academic and professional development thrusts.

57-75 Reverse the Education Crisis

The Philippines is unique in Asia with a high level of coordination and cooperation within the business community. One such example is the national multi-sectoral campaign called 57-75 Reverse the Education Crisis launched by the LCF in 2006. A private sector-led campaign to help address the most urgent problems of education in the Philippines, its tries to turn things around, starting with the way business supports the public education system. The initiative focuses on reducing dropout rates, improving reading proficiency, increasing achievement rates among public school children, teacher training and development, technical vocational education and infrastructure development.

The Philippines is probably the only country in Asia where the corporate sector has taken on the challenges of a particular sector and is working together to make a significant impact on the education system country-wide. Elsewhere in Asia, in reviewing the CSR/sustainability reports of companies, more often than not, education is the core focus, but each is working in isolation with no coordination within the corporate sector.

Philippine Chamber of Commerce and Industry (PCCI)[359]

The PCCI CSR Division spearheads programmes that are aimed at promoting social accountability and labour compliances as well as enhancing workplace productivity and competitiveness. It also encourages corporations to exercise CSR by adhering to internationally accepted principles, namely the UN Global Compact principles on conditions of work, respect for human rights and the protection of environment.

The Philippines has been slow to establish a local Global Compact chapter. Being inactive for almost three years in the Philippines, the GC campaign has been revived through the efforts of the UNDP. PCCI now sits as a member of the Technical Working Group which oversees the implementation of the GC principles and aims to continually promote the initiative and revive the participation of inactive subscribers.

The Philippines Global Compact Network[360] is still a work in progress, with a low uptake of corporate membership. Of a total membership of 48, only 13 are business enterprises (primarily SMEs), with civil society organisations, academia, business or industry associations, and public sector organisations making up the balance.

Philippine Business for the Environment (PBE)[361]

PBE is an environmental non-profit organisation established in 1992 by private individuals with the mission to help Philippines industry address its environmental concerns and responsibilities. PBE serves as an environmental advocate and clearing house of environmental information, a catalyst for corporate environmental action and partnerships.

CSR – How Strategic?

As is evident from above, diverse forms of networks strengthen and facilitate the CSR efforts of the corporate sector. However, against a background of an ostensibly enlightened corporate sector, a vibrant civil society and an engaged citizenry, Filipino corporations have designed their CSR agendas by looking outward – philanthropy and community investment, rather than inward – in terms of how they do business; how their products are manufactured, sourced or delivered; or who is investing in and managing the company. CSR is still equated with community development and philanthropy.

As early as the 1950's, Eugenio Lopez, Sr., founder of the Lopez Group of companies, alluded to what is today referred to as CSR, "We sincerely believe that a greater proportion of the earnings accrued from business should be returned to the people whether in the form of foundations, grants, scholarships, hospitals or any form of social welfare benefit. We consider this a sound policy and a good investment, which in the long run, will pay off because it will mean more business and goodwill for the company and would minimise, if not prevent, the social unrest and disorder which are prevalent nowadays."[362]

Fifty years on, the same remains true in the Philippines and in a good part of the fast developing economies of Asia. As such, market forces have generally been the major driver of corporate behaviour in the Philippines, and with slow economic growth and political instability, corporations saw it fit to be involved in social development. The expansion and implementation of CSR involve stakeholder engagement with other sectors - government, civil society organisations and increasingly global entities, a stage which has yet to come.

C. NGO Initiatives

In the Philippines the non-profit organisations, for whom advocacy and lobbying are unique functions, were originally watchdogs on government performance. Today, they are involved in the delivery of services like health and education as well as micro-enterprise and cooperative development, and are, in addition, watchdogs on corporate performance in the socio-environment arena.

Several of the above-mentioned private consortiums - PBSP, LCF, AIM-Ramon Center for Corporate Social Responsibility and the Corporate Network for Disaster Response - lead and promote CSR in the business community and provide a forum for sharing and exchange of experiences and opportunities and best practices to the corporate community.

In the Philippines context, Juan Miguel Luz[363] lists three points of convergence for government, business and the community.[364]

- The convergence of interests – sometimes voluntarily and sometimes through conflict, confrontation and pressure politics;
- The convergence of technology – ICT, media, education and the like are changing the speed at which ideas are exchanged, relationships formed and actions inspired and developed; and
- The convergence of local and global interests and action – what were once viewed as local issues can now draw on a global constituency and global issues have become local concerns too.

According to Luz, three external factors provoke action – (a) regulation and law, (b) markets forces and (c) the increasing demand by society for alternative ways of doings things. Internal drivers, such as enlightened self-interest both at the corporate and individual managerial level are slowly moving the CSR agenda up the value chain towards CSR as a business strategy. In addition, the importance of operational efficiencies, primarily on the environment front (energy consumption, carbon footprint, environmental pollution and destruction), has become a significant driver influencing corporate behaviour. Labour and human rights, corporate governance, marketing and finance are issues that touch on internal procedures and management and are still off the table.

Current Status

Newsbreak[365], a Filipino online current affairs magazine conducted two surveys with the support of the British Embassy, cataloguing CSR practices of large corporations and in small- and medium-sized businesses[366], namely “CSR Practices of Top Corporations in the Philippines: Getting out of Public Relations and Philanthropy in 2006-2007” and “CSR Practices of Small & Medium Enterprises in 2007-2008.”

The broad conclusion of the survey focusing on large corporations was that even in top corporations CSR is still experimental and primarily externally focused on community development[367], with employees coming a close second. The survey also found that the CEO of a company continues to be the driving force behind CSR programmes. Few have embraced it as a business strategy - a trend that is growing in the country.

Once embraced, however, CSR is taken forward by different groups within the company, with corporate foundations and public relations divisions being the primary managers of the CSR programme. It is rare to get functional groups involved in embedding the CSR strategy, although, marketing (cause-related marketing) and finance (socially responsible investors) departments are increasingly looking at CSR as a competitive tool.

The “Why CSR?” question however elicited very business-oriented responses like – to manage reputation and brand equity, to enhance competitiveness and market position, and to attract, motivate and retain talent. The scant mention of the interests of investors and creditors, it is assumed, is because they have historically been the priority, measured through standard financial performance indicators.

The results of the second survey focusing on the SME sector indicate that SMEs are unfamiliar with the concept of CSR. However, when asked to provide further details on community involvement and charitable giving, the survey results showed that SMEs are in fact actively engaged with the communities in which they operate. Like their larger counterparts, SMEs also focus on key areas such as livelihood training within the community for out-of-school youth, indigent families and meeting the needs of indigenous tribes. Just compensation, safe and healthy working conditions and the elimination of child labour are the other issues embraced under the CSR umbrella.

Interestingly, the fair trade movement's discourse on ethically produced goods has had a positive influence on the Filipino handicraft industry. A sector widely known for its low wages, unsafe working conditions and child labour practices, it has improved its labour practices and workplace management at the behest of the global demand for ethically-produced products. According to Vincent Eugenio, marketing officer of the Advocate of Philippine Fair Trade Inc.[368], "The CSR of small enterprises is fair trade…"

The surveys also highlight that larger corporations often choose to work with far-flung communities on issues that may have national, regional or global relevance. In contrast, the smaller enterprises tend to focus their energies closer to home within the immediate community where they are located and/or operate. Both large and small companies indicate that cultivating positive reputation and goodwill are driving forces motivating their initiatives in the community, with revenue and employee satisfaction factoring in later. At the national level, clearly market forces and persistent social problems have been the main drivers of CSR behaviour among companies in the Philippines.

Education (scholarships or sponsorships, teacher training, donating books), environment (waste management, periodic neighbourhood clean-up, eco-friendly products and programmes) and health (sponsoring health & sports activities) are the three categories where small enterprises largely focus their efforts. On-the-job training is catching on as a way to employ local youth coming out of polytechnic and semi-skilled training schools. In addition, enterprises involved in the handicraft business eventually employ the people they train in their community.

With regards to philanthropy, 40% of the respondents donate regularly to their parish and NGOs in the community, not necessarily only when they knock on the door but on an annual basis, with a budget earmarked for philanthropy in the community.

In line with the larger corporations, the SMEs involved in CSR defined reputation and goodwill to be the prime motivating factors, followed by revenue and employee satisfaction. However, in a globalised reality, brand recognition and brand risk management are motivating factors for the larger corporations, but with the SMEs "karma" or the belief that God will return what they have given away in the form of good health and long life, plays an important role in the motivation to give back to society.

In 2007, the Asian Institute of Management Ramon V. del Rosario Sr. Center for Corporate Social Responsibility (AIM RVR CSR Center) conducted a survey[369] entitled "State of Corporate Citizenship in the Philippines." The 2007 survey noted that 24%

of companies were involved in providing training or development opportunities for poor communities, 38% stated that they directly hired from marginalised communities, and 36% were engaged in microfinance to promote women livelihood development programmes (Alfonso, 2008). In the same survey, the following also emerged as the five most important roles of business in society: (1) Managing and reporting company finances correctly, (2) Operating with ethical business practices, (3) Ensuring employee health and safety, (4) Protecting consumers or external customers, and (5) Providing employee benefits.

This survey corroborates the Newsbreak findings that the CEO leads CSR adoption and that the commitment and mandate comes from the top. In addition, company size is an important factor accounting for variation in CSR practices.

Despite such proactive action on the corporate governance front, critics remain. According to Filomeno S. Sta. Ana III of Action for Economic Reforms[370], "The Philippine state is weak" and "in the Philippines context, a 'socially irresponsible elite' dominates the entire social fabric. Such propensity requires the creation of the rules of justice and the rules of morality."[371]

Given such a backdrop, Lorenzo-Molo in a 2009 study asserts that it is no surprise that CSR in the Philippines is essentially focused on the "front stage" as a concept of crisis "insurance" or at best a branding strategy.[372] Lorenzo-Molo cites that the poor uptake of CSR is corroborated by both a 2005 study by Chapple & Moon[373] that notes that CSR practice is not substantial in the Philippines; and a 2002 World Bank study that states there are "poor levels of implementation and enforcement by regulators of the minimum requirements of governance, relatively weak institutions to enforce regulations and feeble judicial processes."

According to the AIM-Ramon V. del Rosario Center, the country continues to suffer from an image of poor governance and continuing corruption. Ownership structures of big business in the country imposes a natural barrier to elements associated with corporate governance, the industrial elite, composed of a few families, owns most of the big businesses. Of the publicly-listed companies in the Philippines Stock Exchange, the largest five shareholders own up to 80% of the voting shares in seven of the 29 companies comprising the PSE.[374]

As a 2009 study of Corporate Governance Trends in the 100 Largest Publicly Listed Companies in the Philippines[375] notes, "Based on disclosures in the annual reports from 2002 to 2007, compliance by most of the 100 largest publicly listed companies with the rules, regulations, and guidelines relating to corporate governance appears to have been minimal." The study reports that as of 2007, only 27 companies disclosed the frequency of their board meetings. Also, in 2007, only 11 companies reported having more than three independent directors on their boards.

On the positive side, in 2002, only a minority of companies disclosed information relating to executive compensation and related party transactions. By 2007, all the companies reviewed disclosed such information. Similarly, the number of companies that reported having an Audit Committee increased markedly from 12 in 2002 to 93 in 2007.

Moving Forward

In the Philippines corporate involvement in the socio-economic development of communities is unique. Clearly the response to poverty, civil unrest and widening income disparities of the 1970s was an exercise in self-preservation. However, these very actions of several decades ago laid the foundation of corporate engagement with a diverse group of stakeholders rather than the narrow interests of the shareholder. To move up the value chain on the CSR front, Philippine businesses require a strong commitment from business leaders and top management. Individual leadership is still the motivating factor in companies and that needs to change.

In addition, despite the fact that the Philippines has a good set of environmental laws and was one of the first countries to enact policy guidelines on corporate governance after the Asian financial crisis, the government lacks the ability and will to adequately enforce these regulations.

Strategic philanthropy is clearly embedded, but sustainability, environment, human rights and governance all intrinsic to the internal functioning of a business are the next frontier that the Philippines corporations could aspire to work towards. At the same time, business sentiment in the Philippines demands government to be proactive in encouraging the implementation of CSR initiatives. Opponents of government involvement caution against a regulated rather than a voluntary environment, which would make participants less innovative.

13 SINGAPORE

Singapore Inc. Pragmatism

Abstract

A Regional Underachiever

Given Singapore's status as an economic powerhouse in the Asian region, it is often assumed that the level of CSR activity would be proportionate. However, in frequent comparisons of CSR across countries, both academically and anecdotally, Singapore seems to fall short.

The presence, profile and prominence of CSR in Singapore are shaped by the ubiquitous presence of the government in all sectors, including private business and civil society. The historical tripartite approach to business and industrial relations forms the bedrock of Singapore Inc.'s economic success.

Unsurprisingly, Singapore-based businesses tend to view CSR as a compliance issue, rather than as a way of doing business. Many local companies still regard CSR with much wariness or indifference, and the limited CSR efforts in Singapore are generic and lack the contextualisation to local needs and conditions.

Often, the pressure comes from international partners for whom the reputational and regulatory risk is significant. In addition, in the future, businesses are more likely to face top-down pressure to embrace CSR to maintain export competitiveness and compliance with global standards, such as ISO 26000. Civil society challenges more familiar to the Western multinationals are as yet a weak driver.

In keeping with Singapore's emphasis on a business-friendly environment, CSR is primarily economically driven, variously seen as a good marketing strategy, enhancing brand image or simply as a means to avoid the economic costs of non-compliance.

In a 2005 study on CSR reporting in seven Asian countries, Chapple and Moon noted Singapore's relatively low level of CSR penetration despite it having the highest levels of economic and social development among the sampled countries (India, Indonesia, Malaysia, the Philippines, Singapore, South Korea and Thailand).[376] Chapple and Moon suggest that the Singapore government's heavy investment in areas such as education and environmental protection has removed "the need and stimulus for Singaporean companies to do so themselves".

The relatively large tax base, its economic success, and its small geographical area (with no significant agriculture sector) may provide empirical evidence that wealth dilutes the CSR imperative. Yet, the Singapore experience cannot be generalised since similarly wealthy countries such as the US, UK, and Japan have higher tax bases and yet have higher CSR penetration.

While awareness of CSR is high among businesses and corporate executives in Singapore, that does not necessarily lead to a similar level of engagement on the CSR front.

(Author's note: A substantive portion of the following composition is an abridged summary of a longer Singapore-specific study done by Assistant Professor Eugene Tan, from the Singapore Management University.)

Background

- Gross Domestic Product: USD $182,231 billion (not adjusted for inflation).
- Population: 4.987 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): USD $37,220.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 45.[377]

A Tripartite Approach

In Singapore, much of the initial public discourse on business responsibility and industrial relations has been dominated by the state, the employers and the umbrella body of trade unions in Singapore. Tripartism is the cornerstone of Singapore's industrial harmony for the last several decades. The country saw its last industrial strike in 1986.[378]

Today, the government can be described as the agenda-setter and agenda-manager of CSR in Singapore. Even in the promotion of CSR and in formulating broad CSR strategies, Singapore has opted for the tripartite approach—involving the unions (employees), the employers, and the government thus promoting awareness among stakeholders to the issues and challenges of CSR faced by the different parties.

This engagement process underlines the core values of consultation, consensus, and non-confrontation, a reality of Singapore's political-economic life and suggests that the pace and texture of the CSR movement will always be co-determined. With a small non-profit sector, CSR activism on the part of NGOs and civil society is rarely seen and is discouraged as it would detract from Singapore's branding as a business-friendly place.

The three key stakeholders in the CSR space in Singapore are the employers, trade unions, and the government. The employers are represented by the Singapore National Employers Federation as well as the Singapore Business Federation. The trade unions are represented by the umbrella body, National Trades Union Congress (NTUC), a movement closely linked with Singapore's ruling People's Action Party.[379]

Labour Relations

Given that Singapore is a multi-racial, multi-religious and multi-lingual society, CSR takes on a significant hue in employment and industrial relations. A communitarian-based understanding of an individual's rights and obligations vis-à-vis the society dovetails with the Singaporean approach towards governance in general. In this regard, the CSR regime is seen as a form of dispute resolution mechanism. More importantly, such an approach provides a pre-emptive management of "combustible" issues in the CSR arena before they escalate to become hot-button issues. All these benefits accrue without the need for excessive regulation and cost-incurring enforcement, both of which are likely to detract from the business of economic activity.

There is however, the case of migrant labour (also known as "guest workers" in some countries) in the construction industry that is an open question in Singapore currently. The extensive labour laws are seemingly limited in addressing the needs of this class of labour. As it stands, the construction industry is still to take significant responsibility for this group of workers, and continues to see the welfare of this group as the responsibility of the sub-contractor. Across the board, little thought is given to this as a CSR initiative.[380]

Government as the Agenda Setter

The Singapore government, a significant player in Singapore's economy, has taken on the role of promoter and practitioner of CSR. Yet there has not been any rigorous debate and understanding over the scope of CSR in the Singaporean context, the lack of consumer involvement and advocacy, and the role of business, state and society in engendering support and awareness of CSR.[381]

A key impetus for the nascent CSR movement in Singapore is the economic imperative. As a trade-dependent industrialised economy, the economic development drive, coupled with the need for international expansion, has made it necessary for Singapore businesses to be cognisant of the growing CSR movement in the Western industrialised world. The government supports the movement and implicitly recognises that CSR has the potential to engender economic vitality and productivity through innovation, enterprise, competition, skills, and investment.

The government is the primary driver as it is the most influential entity within the Singapore corporate sector with the large number of government linked companies (GLCs) that dominate the financial, media, infocomm and other tertiary industries in the country.

Development of CSR

Exhibit 13.1: CSR Timeline of Singapore

Date	Milestone
1993	Shared Values White Paper released.
May 2004	National Tripartite Initiative on CSR established.
Jan 2005	Singapore Compact for Corporate Social Responsibility founded.
Apr 2006	Singapore acceded to the Kyoto Protocol.
2007	Singapore declared its aspiration to be the research and development hub for environmental and water technology in Asia.
Jan 2008	Inter-Ministerial Committee on Sustainable Development set up.
2008	Baseline national survey commissioned by Ministry of Trade and Industry.
Aug 2010	SGX issued a "Policy Statement on Sustainability Reporting" and a proposed Guide for its listed companies to use in formulating their sustainability reporting.

A Hybrid Model

The Singapore approach to CSR and its development has been a hybrid model in which the movement was initially government-led, but has subsequently been handed to a quasi-government organisation, the Singapore Compact for CSR in which the government is well represented. The key stakeholders continue to be employers and the trade union movement, with little representation from civil society.

The tone for the development of CSR ensures the business-friendly stance that does not strain the fabric of both the corporate and industrial sectors. This cooperative-partnership approach ensures that the CSR movement is neither overly-regulated nor heavily enforcement-based.

While the state has been tacitly encouraging in its support of CSR, CSR has a somewhat ambivalent, if not patchy, presence in Singapore. Beyond traditional and ubiquitous corporate philanthropy, CSR has been spoken of and invoked in issues pertaining to corporate governance, environmental protection, public relations, community engagement and social cohesion, labour issues, and Singapore's reputation as a trusted business hub.

Shared Values

The CSR movement is culturally appropriate to Singapore. The importance and influence of the "Shared Values" ideology on the CSR regime in the country cannot be discounted. The "Shared Values"[382] principles (viz Nation before community and society above self; Family as the basic unit of society; Community support and respect for the individual; Consensus, not conflict; Racial and religious harmony) officially adopted in 1993, are closest to what can be seen as a national ideology driving corporate behaviour.

A communitarian-based understanding of an individual's rights and obligations in relation to the society is a distinctive feature of Singapore's conception of law and the legal system. Priority is accorded to the advancement of community rights and interests over the individual. This communitarian understanding of rights and responsibilities shapes the tripartite approach to CSR in Singapore.

Corporate Governance

Singapore stands out within the Asian region as a country where the rule of law prevails. The Monetary Authority of Singapore and the Singapore Stock Exchange closely monitor and regulate corporate behaviour and operations, and have established one of the more advanced corporate governance regimes in the region.

As an island nation-state with few natural resources, Singapore maintains an open trade policy, with virtually no restrictions on the flow of foreign currency funds, a liberal policy on foreign direct investment and few limitations on foreign ownership (with the exception of the banking and news media sector) to sustain the economy's high rate of growth and global competitiveness. In such a scenario, one would expect corporate governance structures to be comparable to those in the developed world.

Post-1997, Asian financial crisis corporate governance practice and philosophy evolved rapidly to tighten financial and audit oversight by board committees. However, wider corporate governance requirements are still far short of the regulation and enforcement in the OECD countries. Singapore's unique corporate ownership structure (in terms of government-corporate ownership, owner-manager structures in even publicly-traded companies and cross company holdings) has a significant impact on the culture of disclosure and board of director's independence.[383]

Singapore has recently renewed its efforts to align corporate governance requirements in line with international standards, through the new Corporate Governance Council

(CGC), appointed by the MAS in February 2010. The CGC has proposed bold changes to the current best practices guide last reviewed in 2005 by the then-Council for Corporate Disclosure and Governance. Singapore is seeking to raise its corporate governance standards by revamping key issues, such as definition of independent directors, disclosure of board and executive remuneration, and shareholder rights and responsibility.

Once again, maintaining the economic edge is key, as stated in the mandate of the CGC, "...promote a high standard of corporate governance in companies listed in Singapore, so as to maintain investors' confidence and enhance Singapore's reputation as a leading and trusted international financial centre."[384]

Environmental Issues

In 2007, Singapore declared its aspiration to be the research and development hub for environmental and water technology in Asia.[385] In addition to the economic opportunity and the benefits arising from a commitment to innovation and competitiveness, it is clear that the government is aware of the role that CSR can play within a multi-stakeholder approach. In keeping with this "change of heart", Singapore, a non-Annex 1 signatory to the UN Framework Convention on Climate Change since 1997, only acceded to the Kyoto Protocol (the primary international agreement on climate change) in April 2006.[386]

Singapore's initial reservation with acceding to the Kyoto Protocol was over its ability to manage greenhouse gas emission levels in a manner that is not harmful to economic growth. However, in recent years as accession became viable because of the tremendous potential demonstrated by Singaporean companies specialising in environmental technologies, the developments following its accession to the Kyoto Protocol have been rapid and significant. In March 2007, the government announced that it was investing in research into the production of viable solar power.

Singapore's success in exploiting clean water technology has reaped economic dividends as well as increased self-sufficiency in meeting its need for water supplies. Singapore is now putting in a similar effort to replicate such success in other areas related to the environment, viz, clean energy. Here again the country is relying on another tripartite partnership – one involving the public, private, and the people sectors in pushing for environmental sustainability. Using environmental sustainability as a prism and an independent variable, the response has been unabashedly pragmatic.[387]

In January 2008, the Singapore government set up the Inter-Ministerial Committee on Sustainable Development (IMCSD)[388] to develop a national framework and key strategies for the nation's sustainable development. The objective is "…to build new competencies and facilitate mindshare across the public, private and people sectors to develop Singapore as an 'Eco-Hub'. The aim is to make Singapore an innovative thought centre and hub for urban and environmental sustainability."[389] The IMCSD's focus is on four priority areas, namely resource management, pollution control, quality of the physical environment and to encourage community participation in changing collective behaviour towards responsible habits and lifestyle.

In addition, government agencies, such as the Building and Construction Authority[390] under the Ministry of National Development, launched the BCA Green Mark Scheme in January 2005 as an initiative to drive Singapore's construction industry towards more environmentally-friendly buildings. It is intended to promote sustainability in the built environment and raise environmental awareness among developers, designers and builders when they start project conceptualisation and design, as well as during construction. The BCA Green Mark is a benchmarking scheme, and gives out numerous awards encouraging property developers to incorporate green features into their design and construction plans.

The Players

A. Public Initiatives

National Tripartite Initiative on CSR

In May 2004, the National Tripartite Initiative on CSR (NTI on CSR) was established as a national steering committee to "embrace CSR as a coordinated national initiative - to view the issues holistically and address any gaps at the national level."[391] The NTI on CSR includes key stakeholders from the business sector, unions, and the government, including key stakeholders like the National Volunteer & Philanthropy Centre, Consumers Association of Singapore, Singapore National Cooperative Federation, Singapore Institute of Directors and relevant government ministries and agencies.

At the NTI launch, a then junior Minister noted of the Singapore situation: "There are various stakeholders advocating different areas of CSR. For example, NTUC advocates CSR from a workers' perspective while, CASE promotes CSR from a consumer protection perspective. The Singapore National Employers and Business Federations (SNEF and SBF) and other chambers actively promote various CSR-related programmes to their members. The Ministry of Finance and the Monetary Authority of Singapore (MAS) advocate CSR from a corporate governance perspective."[392]

B. Private Initiatives

Singapore Exchange Limited (SGX)

SGX is an integrated securities and derivatives exchange, established in 1999, following the merger of the Stock Exchange of Singapore and the Singapore International Monetary Exchange. Home to Singapore's leading listed companies, SGX monitors the Code of Corporate Governance 2005 which is under the purview of the MAS. SGX requires listed companies to disclose their corporate governance practices and explain deviations from the Code in their annual reports.[393]

In August 2010, SGX issued a "Policy Statement on Sustainability Reporting" and a proposed guide for its listed companies to use in formulating their sustainability reporting. It explained that, "With increasing global attention being paid to issues of environmental protection and social responsibility, investors are looking beyond companies' standard financial and corporate governance reporting to their management of environmental and social matters. Investors who lead world opinion expect listed companies to be accountable for their financial results, how they achieve the results, and what impact they have on the communities within which they operate. SGX encourages more listed companies to commit to sustainability practices and reporting."

At this stage, sustainability reporting is voluntary. Where a company is involved in significant CSR reporting, it means that the company is ready to stand by its performance in the social and environmental spheres. It also demonstrates its readiness to manage risks that are non-conventional in nature. Currently, Singapore does not require mandatory sustainability reporting, a proxy measure of sorts of CSR efforts and commitment.[394] SGX is of the view that as more companies become inspired to adopt sustainability reporting, it will be natural to take the next step on guidelines and standards leading to rules.

C. Industry Initiatives

Singapore Institute of Directors (SID)

Founded in 1997, as a response to the Asian financial crisis, the Singapore Institute of Directors[395] is a national association of company directors that promotes the professional development of company directors and corporate leaders. The Institute works to enhance the standards of corporate governance and ethical conduct in Singapore.

SID has laid out statements of Good Practice as well as a Director's Code of Professional Conduct with respect to corporate governance. The SID's Statements of Good Practice provide guidelines on certain fundamental issues of board performance, accountability and corporate responsibility. SID runs the Listed Company Director (LCD) Programme that focuses on comprehensive training of company directors, particularly independent directors, on corporate governance. All serving directors and those aspiring to be listed company directors are encouraged to complete the five modules of the LCD Programme as an indication of having acquired the minimum knowledge of what is expected of a listed company director.

It is important to note that all of the above organisations are quasi-government entities, reinforcing the fact that the government is a primary player in pushing the CSR agenda.

ISO 26000 Spotlight: Corporate Governance

Singapore, known for having established one of the more advanced corporate governance regimes in the region, recently came out tops in Asia (excluding Japan) in a research report on governance standards released by Swiss banking group UBS. Efforts by the regulators have not relented, with a new Corporate Governance Council established with the mandate to "promote a high standard of corporate governance in companies listed in Singapore, so as to maintain investors' confidence and enhance Singapore's reputation as a leading and trusted international financial centre".[396]

Of the top five companies by market capitalisation, DBS stands out. Its Articles of Association require one-third of the Board (being the longest in office) to retire from office every year at the annual general meeting, therefore requiring every director to come up for re-nomination and re-election by shareholders at regular intervals of at least once every three years.[397]

However, DBS also states that "Although the Code recommends that at least the top five key executives' remuneration be disclosed within bands of S$250,000, the Board believes such disclosure would be disadvantageous to the Group's business interests, given the highly competitive conditions in the banking industry where poaching of executives is commonplace."[398]

D. NGO Initiatives

Singapore Compact for CSR

In January 2005, the NTI on CSR went on to found the national CSR society, the Singapore Compact for Corporate Social Responsibility, more popularly known simply as "Singapore Compact."

Singapore Compact's vision is "To be a dynamic network of stakeholders to advance sustainability for global good." Its tagline is "Working Together, Doing Good." Its declared mission is, "To be a credible and effective national society in promoting greater awareness, best practices, sustainable development and excellence towards CSR in Singapore, using a multi-stakeholder platform for wider collaboration through coordinated strategies and implementation."

In establishing Singapore Compact, the tripartite system was replicated in the CSR movement in Singapore. Constituted as a registered society, Singapore Compact is meant to be "a platform in fostering dialogue and collaboration among various CSR stakeholders" (as expressed in 2007). The society seeks to play "a pivotal role in defining the direction and landscape of CSR in Singapore, and help Singapore embrace CSR as a coordinated national initiative."[399]

It also provides a forum for collaboration, support and sharing of information and good CSR practices, and serves to facilitate the implementation and promotion of CSR through the establishment of sectoral networks or other appropriate groupings. This tripartite initiative aims to also provide strategic direction and overall coordination of the various CSR programmes, including helping small and medium enterprises adopt good CSR practices.[400]

Current Status

A Landmark Survey

In 2008, the Ministry of Trade and Industry, in consultation with the Singapore Compact, commissioned a national survey to understand the perception of CSR among Singapore-based enterprises, the importance of CSR to their business operations, their current state of CSR activity, as well as their future plans and challenges faced in embracing CSR. The findings suggest that companies have a relatively low level of awareness and understanding of CSR within the corporate sector and that a lot more needs to be done to sensitise Singapore-based businesses to CSR.

A total of 507 Singapore-based enterprises were surveyed. They included local- and foreign-owned companies, small and medium enterprises (SMEs), and larger enterprises, spanning a broad range of industries from agriculture to retail.[401] Out of these companies, 70% were SMEs and 64% were local-owned companies.

The overall picture did not paint a dismal picture of CSR in Singapore. Neither was the picture a glowing one. On the overall perception of CSR in Singapore, a relatively low 40% of enterprises surveyed were aware of CSR. Large enterprises, however, were twice as likely to be aware compared to SMEs. Foreign-owned enterprises were also more likely to be aware of CSR than their local-owned counterparts. This variance can be accounted for, according to the survey, "partially attributed to actions by their (foreign-owned enterprises) head offices."

Of those respondents aware of CSR, about half of them had a specific understanding of CSR beyond the general sense that it entailed businesses giving back to society, and could point to specific pillars of CSR such as sustainable development and fair employment.

On the importance of CSR, respondents generally felt that CSR was important to their overall business strategy. Three in five respondents that were aware of CSR agreed that profitability, while important, should be balanced by their contributions to the wider public good, as opposed to pure profit maximisation.

This national survey is likely to be conducted at regular intervals. Although a small sample size, the first survey has given a useful baseline from which growth and development in awareness, understanding, and practice of CSR can be tracked.

Given the low base that Singapore started from, the likelihood of making significant improvements is real.

A Nanyang Technological University (NTU) survey on CSR awareness among SMEs in Singapore[402] (2009) corroborated the above findings. The NTU study undertook a dual approach comprised of in-depth interviews with 15 corporate representatives and a web survey of CSR among 113 SMEs in Singapore. The web survey reported that though a little less than two thirds of the respondents were aware of the term CSR, a fourth of this group indicated that they did not comprehend the concept. Similarly, in the interview format, corporate representatives showed a high level of awareness of CSR, but were unable to provide a definition or a clear understanding of what encompasses CSR.

In both approaches, community involvement and environment were seen as the primary thrust of CSR. Safety standards, product quality, employee welfare and training and ethical conduct were all seen as part and parcel of business functions. This is due in part to what the study refers to as "the unintended embedding of CSR as an indirect consequence of the stringent regulations in Singapore". The government through the tripartite approach and partnering quasi-government agencies (Building & Construction Authority, Association of Small and Medium Enterprises, and SPRING Singapore to name a few) guides and encourages corporate activity that benefits a wider sphere of stakeholders.

In response to what drives CSR, contributing to society and building better relationships with primary stakeholders (employees, customers and business partners) topped the list, followed by government influence and stakeholder encouragement. Clearly, the SME bent of mind differs from that of the larger corporations where company image and branding seem to be the driving factors.

In the consideration of constraints for engaging in CSR, business survival is still key, and hence limited financial and human resources are cited as barriers to SMEs embracing CSR. In addition, the study highlights the fact that SMEs do not actively communicate their activities to external stakeholders. If they do, it is via informal communication to primary stakeholders, as the costs of formal communications are high. In addition, in keeping with the Asian culture of "keeping one's good deeds anonymous", formal disclosure and reporting are often limited.

It is important to note that in the Singapore context, the emphasis on training and skills enhancement, a comprehensive set of labour legislation together with a policy towards universal coverage in the spheres of education, housing and health ensures and defines the CSR parameters. Some see such wide-ranging requirements of the business sector as a factor that obviates the need for business to take on the CSR mantle as others have in the developed world.

ISO 26000 as Soft International Law

It is important to note Singapore's active participation in the ISO 26000 deliberation process. Singapore through the relevant government agency, SPRING Singapore, closely followed developments relating to the ISO 26000 guidance on social responsibility.[403] The government has stated that it will "help to ensure that Singapore-based enterprises are aligned to any CSR standard which is adopted internationally. This in turn will ensure that Singapore's future trade flows are not hindered by technical barriers arising from international CSR standards."[404]

As mentioned earlier, given Singapore's heavy dependence on export trade, it is a legitimate concern whether CSR-type requirements, including ISO 26000, could operate as non-tariff trade barrier. The introduction of ISO 26000 even as a guidance standard highlights the urgency for Singapore companies to be ahead of the market on CSR issues.

Moving Forward

Clearly from the above discourse, the key element in the adoption of CSR in Singapore is and will continue to be the economic imperative to maintain the country's competitive edge and retain its business-friendly environment.

Government as Driver

In Singapore, the government sits atop the CSR pyramid, having developed its framework and set the agenda. The government is also the promoter and enforcer at the same time, albeit through related parties in the National Tripartite Initiative. What characterises the Singaporean approach is a mix of minimal intervention at the policy front and a careful management of the perceptions of various interested parties in the CSR movement. Thus, regulation is minimal and no CSR-related legislation is in the works.[405]

Instead, the government prefers to guide the growing importance of CSR while also ensuring that the activism and confrontational aspects – features of CSR in advanced economies – are severely constrained. In addition, the government is cautious in steering the CSR movement in Singapore away from the rights discourse that is catching on in the developed countries to a dialogue premised on the responsibilities of the different stakeholders engaged in CSR. Moreover, a "responsibilities" discourse also facilitates a self-regulatory approach on the part of the key stakeholders and is preferred to a rights-based one.

In asserting a leadership role, the government is seen as endorsing an equitable form of capitalism closely involved in issues such as environmentalism, work-life balance, anti-corruption, and philanthropy, that concern and appeal to the younger generation of Singaporeans.

CSR as a Strategic Differentiator

Singapore jointly tops Transparency International's Corruption Perceptions Index for 2010[406], together with Denmark and New Zealand. The national effort is to use CSR as a strategic differentiator in the economic realm. The notion and ideal of ethical leadership in the political realm are a key competitiveness instrument and have been key drivers in Singapore's economic competitiveness.[407] This leverages on Singapore's brand reputation as a country with a sterling record for clean government.

The more companies embrace CSR in the domestic setting, the more Singapore's reputation will get enhanced as a brand name for trustworthiness and reliability, in addition to its long-standing association with efficiency and effectiveness.

This differentiator is now rigorously applied to the business sector in Singapore where a CSR-enabled environment is seen as having the capacity to provide thought leadership in a society where the embracing of globalisation is seen as vital for national survival. A good example is the 2007 budget, where the government made modifications to the tax and charity rules in order to facilitate giving (corporate and individual) from Singaporeans, and also as part of its larger ambition to nurture the "emergence of philanthropic thought leadership in Singapore."[408]

This is an attempt to manage concerns vis-à-vis the reality and imperative of Singapore's export economy. If not appropriately managed, CSR could, in time, operate as a non-tariff trade impediment and eat into Singapore's export competitiveness.

Export Markets

The Singapore economy is highly dependent on external trade, and most of Singapore's products, whether electronic, chemical, or pharmaceutical, are exported to the economies of the developed world where consumers in those markets have shown a greater appreciation and demand for CSR. With Singapore companies both private and government-linked venturing overseas, concerns with supply chains take on increasing importance. Hence, the business driver acquires a significant profile in the government's encouragement of CSR.

In particular, the government recognises the centrality of CSR in the European business realm, and increasingly views CSR as a source of competitive advantage for individual companies and the international competitiveness of Singapore. Given that Singapore is heavily dependent on the export trade, free trade is much valued and the concern that protectionist sentiments globally (especially in the developed economies) may result in CSR requirements becoming a non-tariff trade barrier, keeps CSR front and centre in the national dialogue.

CSR is also of concern to Singapore due to its position as a hub for international businesses and the international expansion plans of local companies and government-linked companies. While businesses have traditionally adhered to national standards, the trends point towards looking "beyond national boundaries to discover which standards to follow, and perhaps to exceed."[409] In this respect, it has been suggested that the European Union will lead in product environmental standards, the United

States in corporate governance requirements, and international non-governmental organisations in human rights and labour rules.[410]

CSR as a Regulatory Catalyst and Norm-Setter

Lastly, the government encourages the use of CSR as a catalyst for regulation in particular, self-regulation. The utility of CSR as "soft law", if properly developed, can translate to soft power for a country so dependent on foreign trade and investments.

It is clear that in Singapore the government is the single most influential driver of CSR, despite the fact that it is not seen as being in the driver's seat. The business environment differs in Singapore from other countries in the region, as well as the West in several ways. The business sector is dominated by government-linked companies, the government is an active promoter and partner in Singapore's drive to maintain its competitive edge and economic relevance in the region. In addition, in order to preserve its reputation as a business-friendly destination, the government is reluctant to use the regulatory route.

It is no surprise that environment and labour/employee relations are the focus of companies venturing out in the CSR space. Both issues are one that the government has numerous regulatory standards and guidelines on. In addition, Singapore is not exempt from global supply chain pressures, as up and down the value chain international business partners and parent company mandates will push local companies towards addressing CSR issues. Moreover, international expansion by Singaporean companies, greater exposure to global consumer expectations, and the aspiration of Singapore to be a hub for international business and philanthropy will exert pressure on both the government and business sector to quicken its uptake of CSR.

The biggest change will perhaps come with the younger generation demanding a great voice in the future direction of the country. The limited political space that limits the presence of a robust and active civil society will likely change as the 2011 General Election results have demonstrated.

14 SOUTH KOREA

Chaebol 2.0

Abstract

Development of CSR

The development of CSR in South Korea is a phenomenon of the 2000s. Traditionally, the South Korean corporate sector was both opaque in its workings internally, and circumspect in its dealings with the larger civil society in which it thrived. Power was concentrated, as in Japan, in large and complex industrial and service conglomerates, known as *chaebols*, similar in some ways to the Japanese *zaibatsus*.

More recently, in August 2008, President Lee Myung-Bak announced Korea's new national vision of "Green Growth, Low Carbon." To implement this vision, the Korea Smart Grid Institute was established in August 2009. In addition, Denmark in cooperation with South Korea announced the launch of the Global Green Growth Forum (3GF) in December 2010. In May 2011 3GF was officially launched as a global public-private partnership and the founding partners were Denmark, South Korea and Mexico.

Of the ISO 26000 categories, environmental stewardship and product quality, both important aspects of brand image and an export-market driven economy, are two issues South Korean business and government have chosen to focus on in their pursuit to integrate CSR into business strategy.

Typically, the development and growth of the *chaebol* was achieved in close concert with Government policies and goals regarding economic growth. With the growth of the Korean economy after 1970, the *chaebol* became very large entities, answerable, essentially, to no transparent or public process. But equally, with the corporate sector providing very considerable prosperity via wage growth (and employment) to the vast majority of urban South Korean society, little was required of the *chaebol* by the public in terms of openness and accountability.

A series of external events that transpired in the last decade have moved the South Korean corporate sector towards a more socially responsible stance. First, a series of corporate fraud scandals, arising from improper corporate governance and disclosure shook the faith of ordinary South Koreans in the infallibility and incorruptibility of these large corporations - they could not be trusted any longer to function out of the public eye with the expectation that they would engage in activity resulting in social value. The implicit compact with the ordinary citizen was broken.

The first effect of this change was an improvement in standards of disclosure and transparency in their functioning, which brought larger South Korean corporations into better alignment with international best practices in corporate governance and financial reporting.

A follow-on effect was an increase in CSR interest, expressed in a variety of well-publicised efforts by various individual companies to engage in, sponsor and fund socially responsible programmes within their immediate communities as well as more broad charitable activities. At the same time, it appeared that a greater level of CSR awareness has become part of corporate dialogue with various stakeholders, including wage-earning employees, government, shareholders and the wider community. More formal distinctions between the various modes of CSR, such as environmental sustainability, socially responsible investing, traditional charity, community interaction and independence of directorial oversight in governance are being made in discussions.

As such, the availability of material in English covering these developments has principally been in the form of academic studies and sociological surveys. Additionally, some journalistic records and PR material are also a matter of public record. This study attempts to recount the developments in South Korean CSR as well as tentatively identify the drivers and interactions governing its recent history. It would be foolhardy to attempt to define a conceptual and analytical framework to characterise South Korean CSR, as the field is still developing and consciousness amongst the public and corporate sector is still in evolution.

Notwithstanding, it is possible to survey the state of play and provide a snapshot of developments in corporate social responsibility in South Korea within the scope of a brief survey such as this one.

Background

- Gross Domestic Product: USD $1.014 billion (not adjusted for inflation).
- Population: 48.88 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): USD $19,890.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 108.[411]

Historical Context

Since 1960, South Korea has made a transition from being an agrarian country to a first world technologically advanced economy. The *chaebol* or large export-oriented businesses have been central players and the engines of this change.

Social views of these key institutions have been ambivalent. On the one hand, they are acknowledged to be, and respected universally for delivering prosperity to society at large. On the other hand, concentration of wealth and productive assets in large conglomerates has led to inequalities and made competition a harder proposition for small and medium businesses, previously the mainstay of South Korean urban economic life.

In particular, large firms are now seen as having grown by taking advantage of socially-unjust practices. The overall effect of this public view has been to increase the pressure on Korean corporations to be seen to be at least nominally mindful of their social responsibilities.

While traditional forms of corporate benevolence and charity by wealthy businessmen have long been a feature of Korean life, the primary driver for a modern style of corporate social responsibility arose from a series of well publicised scandals in South Korea involving corporate governance in the last decade or so.

The development of corporate social responsibility in the South Korean private and public sectors is a recent development dating back, roughly, to the Asian financial crisis of 1997-1998, where 16 of the top 30 *chaebols* went under.[412] Thus, the crisis served as a catalyst in that economic stress put some firms in financial distress, the underlying causes of which were later discovered to be a variety of failures of corporate stewardship, oversight and conflict of interest. In particular, sub rosa business practices, long tacitly understood as being part of the family-owned business scene came to be redefined in the public mind as malfeasance or corruption.

A Decade of Corporate Scandal

The list of corporate scandals from the period 1998-2007 that shook the public trust in the pioneering *chaebol* is long; a notable feature of the list of scandals was the level of public and press scrutiny each of these situations attracted. Civil debate was intense and civil society was energised to the extent that political pressure on government and public relations pressure on corporates increased with each news disclosure.

Rather than any sea change caused by a single incident, this long process of public revelation of the fundamental failures of corporate governance and thus of social responsibility is perhaps unique in the Asian context for causing change. But as we shall see, the changes brought about are somewhat less remarkable. Nevertheless, the list[413] is striking for the nature of the breaches of trust and the number of blue-chip corporations involved:

- December 26, 1997: Hanbo Group founder Chung Tae-soo received a 15-year jail term for bribing politicians and bankers to keep money rolling into Hanbo Steel, South Korea's second-largest steelmaker, which collapsed in January 1997. One of his sons, Chung Bo-keun, received a three-year suspended sentence.
- August 4, 2003: Chung Mong-hun, Chung Mong-koo's younger brother and then chairman of Hyundai Asan, jumped to his death while facing trial over an alleged $500 million secret "cash for summit" payment to Pyongyang before June 2000's landmark North-South summit. He was also accused of doctoring company books and embezzling 15 billion won.
- June 13, 2003: Chey Tae-won, Chairman of South Korea's biggest oil refiner, SK Corp. begat a three-year jail term for a $1.2 billion accounting scandal and illegal stock dealings at subsidiary SK Global. SK Group Chairman Son Kil-seung was found guilty of accounting fraud and was sentenced to a suspended three-year jail term.
- June 18, 2004: Hyundai Motor Group vice chairman Kim Dong-jin and Korean Air (003490.KS) Chief Executive Cho Yang-ho were given suspended two-year and one-year jail terms respectively, for raising a slush fund to support politicians in the 2002 presidential race. Both kept their jobs.
- October 4, 2005: Samsung Everland Co.'s former chief executive, Her Tae-hak, and CEO Park Ro-bin, were given suspended jail terms for conspiring in a 1996 deal to help the children of the group's chairman buy a majority stake in an affiliate at below-market prices.

– February 7, 2006: Samsung Chairman Lee Kun-hee apologised for "wrongful" corporate governance practices and alleged shady contributions to political candidates. Samsung said it would donate 800 billion won – the largest single charitable and contribution in South Korean history as atonement..
– November 20, 2006: Daewoo founder Kim Woo-choong ended his appeal, after his 10-year jail sentence for embezzlement and accounting fraud was reduced to eight years. Once admired as a hero, Kim fled South Korea in 1999 when Daewoo collapsed with debts of more than $75 billion, and was arrested on his return in 2005.
– February 5, 2006: Chung Mong-koo, the head of Hyundai Motor Group, was found guilty of breach of trust and embezzling company funds and sentenced to three years in jail, a move which swept aside expectations of a suspended sentence.
– April 22, 2008: Samsung Chairman Lee Kun Hee, once the most powerful businessman in Korea, announced his resignation and apologised for corporate governance problems, and was subsequently tried by a special prosecutor for tax evasion and betrayal of fiduciary trust.[414]

CSR consciousness, at least as public relations moves by corporations, has developed alongside with the above revelations in the same time span.

Governmental Response

A study[415] by Choi and Aguilera in 2008 characterises this process well:

> *"The financial crisis introduced the concepts of CSR to Korean society. For example, there was a substantial increase in references to CSR in the Korean Economic Daily. Even though Korean firms superficially knew about CSR before the financial crisis, most CSR activities were generally limited to corporate contribution and philanthropy activities. This crisis had a great impact on local actors, such as state, corporate, unions, and consumers, who were important stakeholders in CSR. For example, the financial crisis brought the first transition of political power from the ruling party to the reformative opposition party. Moreover, the severe restructuring of companies broke lifetime employment systems, and the uncovering of firms' corruptions prompted NGOs' monitoring. Abolishing protectionist trade policies made customers seek their rights and voice their complaints against Korean companies, which had enjoyed a trade monopoly for decades. Furthermore, these local actors saw the fatal consequences when companies only pursued their economic profits through the financial crisis. As a result, these bitter lessons made local actors rethink the role and responsibilities of corporations in society and stimulated them to generate considerable societal demands for improved CSR behavior in Korea. "Traditionally, Korean government sustained*

close relationships with private firms for economic development purposes… The Korean government used chaebols as an engine for industrialization… Under these protections of government, chaebols could make use of unrestrained bank [credit]."

An opposition party took over government in 1998, and its response to both the crisis and subsequent scandals was to introduce new laws and regulations, principally aimed at improving governance in corporations, rather than social and environmental knock-on effects of corporate behaviour. Mandatory equity capital requirements were tightened, and minimum independent directorship requirements were made mandatory for larger firms. Accounting standards were brought in line with international standards. To quote President Roh Moo Hyun in 2002[416]:

"What I mean to say is that the unreasonableness of the economic system governing chaebol, if it is not addressed, will … bring about … crisis. … There will absolutely be no retreat from market reform, but there will be forward movement bit by bit."

References to broader CSR concerns, as opposed to the narrower concern of corporate governance did not explicitly figure in early actions by the state. As stated, the "movement forward" was slow. However, since 2005, CSR has received explicit mention in announcements of government intentions such as the Korean Ministry of Commerce, Industry and Energy's (MOCIE, now known as the Ministry of the Knowledge Economy) plans to legislate CSR laws and promote a CSR reporting system (including the use of pension funds by firms in a socially responsible manner).

Further progress in official recognition of CSR resulted in the establishment of the Korea UN Global Compact in 2007. In 2009 the UN Global Compact China-Korea-Japan Roundtable conference in Seoul formally agreed to enhance and implement CSR objectives in all three countries. The conference included a 40-person governmental delegation which was formally party to the agreements. Internally, the Korean Government has stated that the terms "sustainability management" or "SM" and CSR are synonymous.

Development of CSR

Exhibit 14.1: CSR Timeline of South Korea[417]

Date	Milestone
2003	Korea Business Ethics Index instituted by Ministry of the Knowledge Economy.
2005	ISO 26000 Sustainability Reporting forum established by Ministry of the Knowledge Economy.
2006	Sustainability Management report guidelines reflecting domestic conditions by Ministry of the Knowledge Economy.
2007	Establishment of the Korea UN Global Compact.
2007	Institution Sustainability Management awards for outstanding companies by Ministry of the Knowledge Economy (formerly MOCIE).
2007	CSR forum for SMEs launched by Small and Medium Enterprise Business Administration.
2007	Social responsibility information center established by Ministry of Health, Welfare and Family Affairs.
2007	Revised Industrial Development Act to include promotion of Sustainability Management by Ministry of the Knowledge Economy.
2007	Korea Sustainable Development Act by Presidential Commission on Sustainable Development.
2007	Social Enterprise Support Act enacted by Ministry of Labor.
2009	UN Global Compact China-Korea-Japan Roundtable conference.

Civil Society Response

Public interest in the corporate scandals was intense. Media focus on the string of scandals, business failures resulting from the economic crisis, and the hitherto unseen spotlight on individual business leaders and CEOs resulted in a considerable change of public opinion about the *chaebol* in particular, and of the business culture in general. While the earlier public view of the corporate sector is perhaps best described as gratitude on the part of the average citizen, and paternalistic on the part of companies and economic planners in government, the current mood is one of skepticism and heightened expectations of ethical and socially responsible conduct by firms and business leaders.

There appears to be some independent confirmation of this change in public attitude toward corporates - The Korean Chamber of Industry and Trade in 2007 conducted a survey of the South Korean public – 80% of the respondents indicated that they preferred to purchase goods and services from firms that championed social causes. A cross-cultural study of media perceptions of CSR in Korea[418] (and other countries) confirms the increasing acceptance of CSR as being within the normal scope of corporate activity. The study also reveals that editorial advocacy of CSR as a desirable activity began to increase in the popular mainstream South Korean newspapers during the first decade of the century confirming that a demand for (increased) CSR has been a part of recent public discourse. Choi and Aguilera[419] point out,

> *"Above all, consumers clearly recognize that irresponsible activities of firms undermined the economy's strength through the lessons of financial crisis. In terms of a survey of EAI (The East Asian Institute, 2005), 72.4% of respondents reply that they will not invest in companies, which do not give social and environmental responsibility serious attention. In addition, 76.6% of subjects respond that they will not purchase products and service of companies, which do not fulfill a minimum CSR standard. Even though only 15% of respondents actually have boycotted the products and services of irresponsible companies, 46% of consumers respond that they have a high intention to act on their convictions in the future. It is interesting that 63% of respondents support the interventions of government to promote CSR activities."*

Corporate Sector Response and Initiatives

South Korean corporations, both large and small have always shown sporadic engagement with the surrounding society in the form of traditional charity. The Beautiful Foundation, a Korean NGO tracking charitable activities conducted a survey[420] soon after the crisis in 2003. 41 of 45 large firms confirmed that they were involved in philanthropic activity, much of it in the form of sponsorships, typically for less than one month.

CSR departments, where they existed, were typically staffed by one or two persons. Almost 58% of the firms represented that employee volunteer teams engaged with the community, but it is not clear if this was significant, as the firms merely represented that they had at least one employee volunteering. Less than 10% of management confirmed that they engaged in such activity, and community engagement was rare. At that time, one of the few broadscale public engagement programmes was by KEPCO (Korea Electric Power), which printed missing children information on its monthly bills.[421]

A number of well publicised initiatives by some large South Korean corporates took place in the years that followed. Korea Telecom (KT), Samsung, SK Energy, Hyundai-Kia Motor and Hynix all established CSR departments. However, the Federation of Korean Industries (FKI) in 2006 reported that such activity accounted for less than 2% of profits, well below values in the USA and Japan.[422] LG Corporation announced (2009) that it had joined the Electronics Industry Citizenship Coalition (EICC), thus signing up for a global code of conduct following industry best practices in working, labour and environmental conditions, and to adopt corporate CSR best practices.[423] Similarly, Korea Telecom introduced detailed annual reporting of its CSR activities annually, which revealed a variety of modes of community engagement, including education and welfare support, job creation programmes and global initiatives in its multinational activities.[424]

According to a survey by FKI in 2006[425], 75% of the 120 largest companies in Korea are now engaged in CSR projects and 87% name such involvement as a necessary company activity. Nearly half of the large companies surveyed have set up their own CSR department, though the methodology used for the survey, and the definition of CSR spending are unknown.

More interestingly, the report confirms that the primary motivation for the activity is the improvement of the company's image, with over 80% of the firms reporting this as their main reason for CSR. This is not surprising, as a parallel 80% of the general public reports that they preferred to buy goods from firms that support social causes.[426]

The culmination of this activity by the FKI resulted in a formal resolution adopted to increase social involvement of firms. Member companies of the FKI have to take on "economic responsibility" (creating jobs), "legal responsibility" (adherence to law), "moral responsibility" (exhibiting a tendency toward social justice) and "social responsibility" (charity, and championing and promotion of the disadvantaged in society).[427]

Nevertheless, a cross-country study by Christie, Kwon, Soeberl, Bauhart, in 2003[428] reveals that the underlying attitudes of individuals within the corporate sector are significantly different as measured against the similar corporate value/moral metrics in the United States and India. For example, while 99% of American business managers and 84% of Korean managers agree that they need to be ethical in the long term, only 38% of Koreans agreed that being ethical and being profitable go together, as opposed to 96% of Americans and 71% of Indians.

Similar conclusions are reached in relation to attitudes in Korea then prevalent (2003) in terms of marketing unhealthy products and dishonest advertising. Interestingly, the study also revealed that Korean and Indian managers viewed damage to the environment from corporate activity as being more unethical than American managers did. Similarly surprising, fewer Korean managers viewed the firing of elderly employees as being ethically problematic, as compared to managers in the USA.[429]

A study and survey five years later, by Choi and Nakano in 2008, confirms progress in Korea.[430] 87.2% of Korean managers believed ethical standards were higher than in 1998. They overwhelmingly cited "top management emphasis… and public scrutiny and new social expectation of business" as being the principal drivers of the change.

A detailed report by the Emerging Market Disclosure Project in 2010 of the CSR reporting practices of Korean corporations, provided a look at the changes brought about since the financial crisis.[431] It found strong reporting on environmental issues but showed a relatively poor understanding of social issues including human rights and stakeholder concerns. Among the findings as summarised by CSRWire,[432]

> *"Many Korean companies, even larger listed ones, do not publish CSR reports, and it is hard to find any reporting within the financial service sector and amongst holding companies.*
>
> *However, for those reporting, environmental disclosure is strong. All of the companies analyzed cover environmental issues in some depth and some display excellent reporting on the following: environmental policies, management systems, global coverage, and board-level responsibility for environmental issues, quantitative emission data and quantitative reduction targets.*
>
> *Reporting on human rights is mostly ignored, with disclosure on the issue being non-existent or superficial. Many commentators also find a worrying imbalance between the treatment of workers in South Korea and the treatment of the company's employees in overseas subsidiaries.*
>
> *Most companies disclosed on at least three indicators relevant to corporate governance. However, on the issue of separation of chairman and CEO, only five companies met this challenge, a pattern similar to that found at other large Korean companies.*

Korean companies exhibited poor reporting of policies on political donations, which is a corruption issue very specific to Korea, where 'facilitation payments' to bureaucrats have emerged as a new form of bribery. Each of the 10 companies analyzed disclosed some information on their anti-bribery activities, but few disclosed political donations."

The Players

In South Korea companies are slowly responding to the call for social responsibility. Associations, the media, and NGOs have increasingly taken up this topic in recent years, while politics remains largely content to observe. The state has in recent years supported standards and policy guidelines but stayed clear of actively sponsoring and endorsing industry CSR initiatives.

The announcement of the vision of a “green growth, low carbon” economy in 2008 is perhaps the most powerful driver for responsible investment. The more recent launch of the Global Green Growth Forum[433] (3GF) in cooperation with Denmark, in December 2010, has the government taking a lead in setting the standards when it comes to environmental responsibility.

In May 2011, 3GF was officially launched as a global public-private partnership, by the founding partners Denmark, South Korea and Mexico. 3GF is coordinating with the Clean Energy Ministerial[434] and the World Economic Forum to strengthen public-private collaboration on clean energy as an important component of the green growth initiative and has resolved to feed global efforts, key outcomes and conclusions into high-level political processes, negotiations and forums at national and international level.

A. Public Initiatives

Korean Agency for Technology & Standards (KATS)[435]

In 1999, as aligned under the Ministry of Commerce, Industry and Energy (MOCIE), KATS was the National Standardization Body in Korea, overseeing various activities: development of the Korean Industrial Standards; control of quality and safety of consumer products; operation of legal metrology system; management of technical evaluation and certification of state-of-the-art technology and products.

Furthermore, in 2006, KATS strengthened policy activities in standards and product safety and reorganised its divisions towards a consumer-friendly and performance-based administration system to actively engage in enhancing quality of life.

In 2008, following the new government’s focus on small-sized structures and practical businesses, KATS rearranged its organisational structure to align with the current 4 Bureaus and 22 Divisions, in order to boost its efficiency and competence, under the auspices of the Ministry of Knowledge Economy.

One programme initiative undertaken by KATS, across industries promoting corporate responsibility, is the Good Recycled programme designed to help build up infrastructure for recycled goods to be turned into high quality products while at the same time help preserve the environment by supporting recycling.

Korea Smart Grid Institute (KSGI)[436]

Korea, like many countries around the world, recognises the necessity of enhancing energy efficiency, tackling climate change, and triggering a green energy revolution. On August 2008, President Lee Myung-Bak announced Korea's new national vision of "Green Growth, Low Carbon."

To implement this vision, the Korea Smart Grid Institute (KSGI) was established in August 2009 with the mandate to comprehensively manage the government's Smart Grip roadmap; operate a Smart Grid test-bed; and extend other policy support for Smart Grid-related issues. The Smart Grid Initiative mainly targets the modernisation of electric power systems. KSGI aims to:

- Explore projects on the development of technology that encompass the convergence of electric power and IT;
- Support cooperation among industry, academia and research institutes;
- Pursue international cooperation and certification, standardisation as well as security;
- And ultimately achieve low carbon green society to better the lives of people and improve the environment by building a nationwide Smart Grid.

B. Private Initiatives

Federation of Korean Industry[437]

The Federation of Korean Industry (FKI), founded in 1961 has historically championed the principles of free enterprise to achieve the development of the national economy. Today, the FKI endeavours to build an advanced society by prioritising stronger industrial competitiveness, and responding to the requirements of globalisation. FKI recognises that globalisation requires a higher profile in the international arena and more substantial cooperation among nations. It recognises the social responsibility of corporations, and works with its members to maintain a balance between the socio-economic climate at home and internationally. Two initiatives that may be seen as CSR related are:

- Expanding community services activities through the "FKI 1% Club", FKI encourages companies to expand their commitment to community services, to establish a model of desirable entrepreneurship, and support and expand contributions to civil organisations.

– Advocacy for the revision of labour laws and reform of the social security system through its activities in the Tripartite Commission in an ongoing drive for an improved relationship between labour and employer.

In addition, the FKI introduced the Charter of Business Ethics in February 1999,[438] resolving to uphold business' obligations to society through professional management, transparency in fund allocation, fair competition, legal compliance, environmentally-conscious management, consumer-oriented production, and to contribute to the improvement of socio-economic conditions in surrounding communities. The FKI independently handles the problems relating to business ethics through the "Committee for Business Ethics".

And the Charter of Korean Business Environment Friendly Management for Sustainable Development in June 2000 outlines a list of Guiding Principles that encourage member companies to establish environment-friendly business management systems that seek a balance between conservation of environment, economic development, business competitiveness and enhancement of market value through the efficient use of natural resources and energy. The Charter also elaborates on the need to develop clean technology, put into practices green purchasing policies, and the need to build social trust through a high degree of transparency in environment-related business activities.[439]

More recently, in March 2008, the Board of Directors of FKI passed a formal resolution to increase the social involvement of companies. Thus the member companies obligate themselves to take on "economic responsibility" (increasing of production and investments to create jobs), "legal responsibility" (adherence to laws), "moral responsibility" (championing of justice), and "social responsibility" (active involvement on behalf of the socially weak).

Actions for this include, among others, the establishment of a CSR committee that should check whether the companies are shouldering their responsibility, the improvement of the relationship between employers and employees to increase productivity and competitive abilities, as well as the encouragement of a culture of donation and voluntary aid activities.[440]

C. NGO Initiatives

NGOs, consumer organisations, and other civic groups have also recently shown interest in business' social involvement. The umbrella organisation of the environmental NGOs, the Korean Federation of Environment Movement (KFEM), has introduced a programme called SMILE (Sustainable Management and Investment Guideline) with which it assesses companies' CSR actions. The Centre for Corporate Social Responsibility advises companies on the publication of Global Reporting Initiative reports.

The UNDP, among other matters in its "Republic of Korea-UNDP Country Programme 2005-2008," provides for the encouragement of companies' social responsibility. In this context, it has strived to build a network between companies and organised CSR seminars.

Korea Federation of Environment Movement (KFEM)[441]

Founded in 1993, KFEM traces its history alongside the Korean environmental movement spearheaded by Choi Yul, a democratic movement leader in university, later imprisoned for his activism against the dictatorial government during the late 1970s. On his release, Choi Yul founded the first environmental NGO in South Korea, the Korean Research Institute of Environmental Problems (KRIEP), in response to widespread pollution caused by the nation's rapid industrialisation.

Through mergers with other environmental groups over the last two decades, KFEM has grown to be the most influential NGO in Korea, with a membership of 85,000 members (individual, student, personal, family, and organisational) and 47 local branches working on various types of environmental issues. Acting as an information clearing house, it collects, studies and disseminates information on global trends to Korean society and regional NGOs. KFEM also seek to be a role model to other East and Southeast Asian countries' NGOs by sharing experiences. Since 1998, KFEM has been organising more international conferences and exchange programmes with other Asian NGOs. It is hoped that the cooperation with other environmental groups in Asia will foster stronger international bonds leading to more effective cooperation on Asian and global environmental issues.[442]

UN Global Compact Network Korea[443]

The Global Compact Korea Network (GCKN), established in September 2007, was the culmination of a comprehensive 18-month outreach effort to promote the world's largest voluntary corporate citizenship initiative in Korea. Since then, the network has launched various activities to raise awareness on the Global Compact and its ten principles. GCKN organises various symposia and interactive workshops for industry to support and strengthen business' capacity to undertake CSR; provides a platform to share knowledge and experiences; and ensures that issues facing global business are considered by Korean practice. GCKN has set up four functional working groups to engage companies in responsible business behaviour in the areas of human rights, labour standards, the environment and anti-corruption. It regularly conducts studies and propositions regarding the future role of Korean corporations and their contributions to the Global Compact initiative.

In November 2009, the first Global Compact China-Japan-Korea Roundtable Conference was held to further advance CSR in the region. The Roundtable, jointly organised by the Global Compact Local Networks from each country, provides an opportunity for formal collaboration between the Northeast Asia networks. Subsequent roundtables have been held annually since. The Korea Network as of May 2012 has a membership of 217 participating businesses and other stakeholders.

Korea Business Council for Sustainable Development[444]

Founded in March 2002, KBCSD is an organisation comprised of Chief Executive Officers of enterprises that share a vision of putting Korean industry on track to economic development in harmony with environmental preservation and social development. It is the:

- Focal point of "Green Growth Business Dialogue", under the Presidential Committee on Green Growth;
- Regional partner of the World Business Council for Sustainable Development; and
- Umbrella institution of the Korean Federation of Industries (FKI).

And aims to:

- Assume a vanguard role in sustainable development policy making;
- Reinforce capabilities for sustainability management;
- Spearhead green initiatives in Asia; and
- Share value across all key stakeholders.

ISO 26000 Spotlight: Organisational Governance

At present the largest group of shareholders is households as a result of the large holdings by chaebol founding families. Indeed more than 80% of shares were held by less than 2% of the shareholders in 1996.[445] There has only been weak minority shareholder protection.

Because individual shareholders have relatively little power and influence on their own, there has been a recent evolution in the nature of Korean shareholding with small shareholders forming themselves into groups which consequently do have the power to influence their investee companies.[446]

One characteristic of insider-dominated stock markets (as in Korea and Japan) is the tendency for companies to co-ordinate their AGMs so that they take place on the same day. This means that a shareholder of more than one company must choose which company's meeting to attend.

Consequently there is a significant reduction in shareholder power – as shareholders can only be represented in person at one AGM. Indeed, the OECD Principles emphasise that companies should remove artificial barriers to participation in AGMs by minority shareholders.[447]

KBCSD also has an education and advocacy programme on human resource development and publishes an "Executive Member Update" and "KBCSD Newsletter" on a regular basis.

Current Status

The evolution of CSR activity in South Korea, with some level of governmental encouragement, continues. In late 2010, the Korean Ministry of Employment and Labor held a well-attended symposium on Social Return on Investment. A current area of concern arises from the expressed commitment to voluntary adoption of ISO 26000 guidelines in January 2011. According to a newspaper report in the Korea Herald:

> *"The Korea Chamber of Commerce and Industry reports that "a majority of the country's top 100 companies by revenue fall short of being equipped with measures needed to meet international standards of corporate social responsibility, an industry report showed yesterday. The report highlighted that only 4.9% of the top 100 Korean companies are equipped with the tools necessary to meet the ISO standards. Another 36.1% said they are 'somewhat' equipped, while another 36.1% said they have no tools and are instead following the industry trend by monitoring the moves of their competitors. Another 21.3% said they are 'practically unequipped,' while 1.6% expressed 'no interest.' 'Although the ISO 26000 would be like a guideline, it can eventually pose as a trade barrier for our companies,' the KCCI said in a statement."* [448]

Moving Forward

The development of corporate responsibility in Korea until now has mostly been in response to specific crises of corporate governance and operational irresponsibility. In the last decade, CSR initiatives have been undertaken partly as a measure to assuage public concerns over corporate governance and improve public relations.

The rest of the growth in CSR activities by corporations may be attributed mostly to an attempt by firms to be in compliance with global standards of environmental regulation, in order to compete in the global marketplace, since the Korean economy is strongly export-oriented. Cultural changes in attitudes towards governance, labour and environmental responsibility are largely imported and imposed upon corporate Korea by the external, international development of standards and protocols.

Endogenous growth in CSR, especially in the areas of community involvement and improvement of labour standards is still slow. Activities by organisations such as the Global Compact Korea Network will help provide momentum and appears to be increasing. However, it still remains to be seen whether such spontaneous and voluntary activity will result in significant changes.

Notwithstanding the future influence of exogenous factors, such as the international adoption of CSR standards and requirements to comply with global best practices, such as environmental and ISO certifications, socially responsible investment and transparency in corporate governance imposed by trading partners and counterparties may yet introduce further changes in the next decade.

Additionally, the raising of public consciousness and awareness of CSR via a globally and domestically connected civil society and consumer groups has some ways to go in terms of demanding responsible behaviour from business.

Thus far, legislation and the government have not been prime movers in getting the corporate sector to adopt internationally recognised best practices. However the government's commitment to a "low carbon, green growth" economy since 2008 has pushed business in the direction of energy efficiency and heightened environmental consciousness. As a vision to guide the nation, the green growth approach aims for sustainable economic development is a paradigm shift from the "brown growth" that has been the hallmark of most Asian nations in the last several decades of industrialisation.

The new vision has encouraged policy goals and targets to tackle climate change and enhance energy security; created new engines of growth and employment through investment in environmental sectors such as low carbon energy sources; and developed ecological infrastructure. South Korea may well be poised to take the lead with a few global partners to lead the green energy movement and to use the current financial crisis as a springboard to new growth engines.

15 TAIWAN

Riding the CSR Supply Chain

Abstract

In Taiwan, CSR awareness, with the exception of companies with a global reach, is low, but receiving growing attention. Taiwan's position as a strategic market for foreign investment, along with its export-oriented high-tech industry, has increased the pressure on companies to meet international standards, including global guidelines on CSR.

China, as one of Taiwan's biggest trade partners, will likely have a significant impact on Taiwanese CSR performance with its shift to sustainable business practices under the "harmonious society" construct. Strong international business relations within the economy, especially in terms of supply chain in the IT sector, are pushing the development of CSR forward in order to strengthen the competitiveness of the Taiwanese economy.

CSR practice is still however limited, with only a minority of companies that have integrated global standards of CSR[449], in addition to a general low level of CSR reporting. Nevertheless, evolving government regulations, increasing social awareness among the general public, the influence of global standards, and the pressure from the media are all catalysing the further development and integration of CSR in Taiwan.

Furthermore, growing public interest and increased focus by media on integrity in business practices support the development of CSR in Taiwan. The Foxconn suicide scandal which marred their relationship with major US companies like Apple is a case in point.

For change to happen, CSR practices, methods and guidelines have to be further developed, not only for Taiwanese multinational companies, but also for small- and medium-sized enterprises.

The influence of Confucian family ties is a double-edged sword, resulting in the prevalence of corruption and cronyism within business relationships. There is an acknowledgement of the need to establish the values of sustainability and integrity in policy making and business decision making.

Author's Note: this chapter was co-authored and translated with third party assistance.

Background

Historical-Cultural Context

Culturally, Taiwan is dominated by Confucianism, which values family above all others, resulting in a prevalence of cronyism that puts a strong emphasis on relationships and the Chinese concept of *guan xi*. This cultural trait extends and penetrates into the government and corporate sector alike, leading to corporate scandals and government corruption and misconduct.[450] It is seen as a contradiction by many, given that the government is the main promoter of CSR within the Taiwanese business community.

Besides Confucian values, family-centric *guan xi* is a major cultural impediment towards CSR implementation. *Guan xi* refers to help and assistance, which is usually offered to personal connections, such as family and friends. Since Confucianism is a widespread practice in Taiwan, managers in corporations tend to offer privileges to their family members, which adversely affects fair competition.

Economic Context

Taiwan enjoys the 23rd highest GDP in the world, totalling US$430.5 billion[451] in 2010. Several international institutes like the International Institute for Management Development, the Business Environment Risk Intelligence and the World Economic Forum have given Taiwan a high rating for overall economic performance and competitiveness.[452]

The Asian Sustainability Rating places Taiwanese companies at the high end of supply chain management, which reflects the competitive imperatives of having a globally renowned IT sector. The strong export orientation of Taiwan and its important role in global foreign direct investment has led to a strengthening of CSR practices.[453] Going forward, China as a key trading partner will likely have the most impact on the implementation of CSR in Taiwan.

Correlation with Mainland China

With mainland China being the closest and largest exporting destination[454] and the biggest manufacturing base for many Taiwanese companies, the Taiwanese economy benefits from mainland China's rapid expansion.

While in the past few decades, mainland China focused mostly on its economic development and ignored supply chain and labour issues, today it is slowly shifting to a more balanced view that emphasises a harmonious society. The pressure from the

Chinese public over the Foxconn scandal is enormous, and has pressured the large Taiwan manufacturers in China to shift their traditional approach and become more responsible in their business practices.

Consumer Awareness

Taiwanese consumers are taking an increasing interest in supply chain issues, and are responding well to cause-related marketing. This has led to not only a strengthening of CSR practices like improved labour conditions, but also a greater drive by companies to incorporate CSR as part of their marketing messages.

The Taiwan Mobile Foundation, for example, organises an annual composing contest for text messages and cell phone ringtones to reflect the social issues in Taiwanese society.[455] Projects such as these demonstrate the potential for social responsibility to be integrated into their business strategies of Taiwanese companies.

Development of CSR

Exhibit 15.1: CSR Timeline of Taiwan

Date	Milestone
Feb 1999	Taiwan Stock Exchange Corporation (TSEC) and Gre Tai Securities Market (GTSM) released the principles of environmental and social guidance for TSEC/GTSM-listed companies.
Oct 2000	Common Wealth Magazine announced the Top Corporate Citizens in the 21st century and established the first mechanism for CSR survey and evaluation.
2002	Ministry of Economic Affairs organised the first seminar-training on "CSR and Sustainable Principles and Guidelines for multinational enterprises".
2002- 2005	IDB promoted the Cleaner Production Consulting Plan (following ISO 14031 and ISO 14032) for benchmark measurement.
2004	DIS commissioned Taiwan Business Council for Sustainable Development to develop a CSR evaluation system for Taiwan. DIS also published a book "From Social Care to Enterprise Ambition" which listed 13 case studies of best CSR practice and launched the first official website for CSR in Taiwan.
2005	DIS worked in partnership with Global Views Monthly to organise the first CSR Award in Taiwan.
Feb 2006	DIS published a new book, Responsibility and Profit: New Business Model for the Globalisation of Taiwan Commerce.
2007	International Development Bureau adapted the Global Reporting Initiative (GRI G3) guidelines.
Jul 2008	Cabinet unveiling energy-saving drive to force Taiwanese industry to go "green," while encouraging the public to change their living and transport habits.
2009	Bureau of Labour Insurance announced that CSR would be taken into consideration in the stock selection for the labour insurance fund. It also formally requested outsourcing providers to incorporate CSR into their stock selection and quarterly reviews.
Jan-Nov 2010	Foxconn suicides alert Taiwanese manufacturers to improve their labour practices.

Jul 2010	Agency Against Corruption established in an effort to quell corruption among government officials.
2011	Workers poisoned at Apple supplier in China involving Taiwanese-owned contractor Wintek, which further raises supply chain concerns for Taiwanese manufacturers.

Corporate Governance

In February 2010, the Taiwan Stock Exchange and Gre Tai Securities Market launched the Corporate Social Responsibility Best Practice Principles, which are applicable to TSEC/GTSM-listed companies on a "comply or explain" basis. In 2007, several corporate governance reforms were initiated, such as the establishment of the legal components of an independent director system.[456] Improved financial transparency and disclosure form a major component of the push for good governance.

In addition, financial transparency has been the top concern in local governance practice for the past five years. The fast expansion of listed companies on the Taiwanese stock market and the globalisation of financial markets make it even more necessary to implement corporate governance standards and regulations.[457]

In terms of corporate governance, according to the Global View Monthly survey which accompanied the 6th and 7th Corporate Social Responsibility Award, the key features of corporate governance in the last few years are as follows:

- Companies tend to establish regular and permanent departments in charge of CSR practice;
- The number of corporate foundations is steadily increasing. In 2007, 28.7% of the TSEC listed companies had established philanthropic foundations, a 0.4% increase compared to 2006. In addition, corporate foundations have become a useful tool for companies to integrate internal and external resources and effectively practice CSR;
- However, companies are short of CSR specialists to implement various issues concerning CSR practice, and employees at all levels need more CSR training;
- Internal communication needs to be improved to raise employees' awareness of CSR issues; and
- Emphasis needs to be on implicit CSR instead of explicit CSR.

Human Rights

The Ministry of the Interior is the main government agency responsible for subjects relating to people's rights and social welfare. Some of its publicly-declared priorities include reviewing and revising regulations which were in conflict with International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights, and promoting the legislation for the Refugee Act to ensure refugees' rights.[458]

According to Amnesty International's 2011 report on Taiwan[459], migrant workers in Taiwan faced multiple abuses of their rights, including the right to transfer between employers and to form unions. Harsh and discriminatory working conditions, and exorbitant brokers' fees contributed to large numbers leaving their original employer and becoming undocumented. Domestic workers are not protected by the Labor Standards Law, and are particularly vulnerable to sexual harassment, inadequate overtime pay and poor living conditions.

Supply Chain and Labour Issues

Solving labour and supply chain issues is a critical part for the development of CSR in Taiwan. Global View Monthly's 2009 survey shows that the maintenance of employees' rights and interests ranks as the second highest concern for listed companies and GTSM-listed companies in terms of CSR practice. While 86% of the listed companies emphasised on the maintenance of labour rights, only 60.6% of the listed companies have employee behaviour standards and code of conduct. By comparison, 91.7% of foreign enterprises in Taiwan have a set of principles to protect their employees' interests and regulate their behaviour. In addition, compared with active employee involvement in foreign enterprise, 22.2% of TSEC-listed companies and 40.6% GTSM-listed companies admit that they fail to effectively encourage their employees to participate in CSR activities.

Another trend is that Taiwanese companies are paying much more attention to supply chain issues than before[460], as a result of pressure from both ends: the factory and the brand. There are several relevant scandals involving famous brands with regards to their supply chain and labour practice, the most prominent being the 2010 Foxconn scandal.

Between January and November 2010, eighteen Foxconn employees in mainland China attempted suicide, with fourteen deaths. The suicides drew media attention, and employment practices at Foxconn were investigated by several of its customers.

Foxconn is a major manufacturer catering to famous name brands including Dell, Sony, Motorola, Apple, Hewlett-Packard and Nokia.

The Foxconn scandal has raised awareness amongst consumers and the general public to supply chain and labour issues of Taiwanese IT manufacturers. In response, Foxconn's CEO flew over to China and apologised, and the company substantially increased wages for its China workforce, installed suicide-prevention mechanisms, provided free psychological counselling, and have asked employees to sign no-suicide pledges. Besides these measures, customers like Apple established a control system by sending its own experts to evaluate the situation in their supplier's factories. Taiwanese manufacturing factories in mainland China have for long had a reputation of being strict and harsh, and such an incident has raised the alarm bells within the Taiwanese business community.

Following the Foxconn incident, 137 workers at an Apple supplier factory in Suzhou were reported to have been seriously injured by a toxic chemical used in the making of the signature slick glass screens of the iPhone. It is believed the contractor — a Taiwanese-owned company called Wintek — had pressured victims and other affected workers to resign and accept cash settlements that would absolve the factory of future liability, as reported by an undercover journalist who worked in one of the Wintek factories. This prompted a call for Taiwanese electronic manufacturers to improve their EHS (Environment, Health and Safety) practices in China.

Apple, in its annual Supplier Responsibility 2011 Progress Report, stated that problems with their suppliers in China continue "for issues ranging from health and safety violations to the use of underage workers, failure to pay correctly and the use of hazardous materials or materials from conflict regions."[461] In some cases, Apple went as far as to end some of their business relationships[462], which has increased pressure on Taiwanese companies to rethink their business strategies and working conditions.

Environment Issues

With climate change becoming a topic of growing concern, there is a trend towards "green CSR practice" which concentrates on environmental protection and sustainable development. As part of the Carbon Disclosure Project (CDP), Taiwanese companies with global operations have begun to disclose their emission data and have introduced carbon reduction schemes and goals. However, there has been a slow reaction from local companies in response to the changing environment. CDP started the Water Disclosure programme in 2010 to drive investments towards sustainable water use, but most Taiwan companies have failed to take corresponding action.

Nevertheless, there is growing concern about environmental issues, with a focus on addressing global warming. In Taiwan, e-learning has become a common tool for TSEC-listed companies and GTSM-listed companies to do employee education on environment. Close to three-fourths of TSEC-listed companies plan to improve environmental performance for internal operating systems and increase their purchase of green products. Among them, over two-thirds of the companies have arranged for specialised staff to monitor the environmental performance of their internal activities. In addition, 44.4% of foreign enterprises, 33.2% of TSEC-listed companies and 18.5% of GTSM-listed companies have adopted online training systems, contributing to resource conservation and environment protection.[463]

In addition to internal improvement, over 80% of listed industrial companies said that they would promote waste reduction, energy saving, recycling and ecology in the productive process. 44.7% of them also said they would increase the purchase of regenerative raw materials. When it comes to greenhouse gas emission, in response to the Carbon Disclosure Project, 27.1% of TSEC-listed companies have released emission data, compared with 23.3% in 2008. Over one-third of all TSEC-listed companies have set their reduction goals and scheme for the coming year.[464] However, according to the latest data released by Global View Monthly's CSR Award Report, there appears a downward trend with regards to carbon disclosure in Taiwan and companies' enthusiasm seems to be decreasing.

Fair Operating Practices

In July 2010, the Agency Against Corruption was established, in an effort to quell corruption among government officials, in the wake of a series of graft scandals involving officials, politicians and high court judges.[465] Even former presidents Lee Teng-hui and Chen Shui-bian have been charged with corruption.

The focus of the Agency Against Corruption's anti-corruption work extends to not only the public sector but also the private sector, empowered by Taiwan's Anti-Corruption Act which covers corruption conducted by the private sector commissioned to carry out public duties.[466]

Sonny Lo, an expert on corruption at Canada's University of Waterloo, argues that an age-old culture favoring *guanxi* (personal networks) is to blame: "The major problem is that *guanxi* as a cultural phenomenon has degenerated into a political tool for the corrupt elite to benefit themselves."[467]

Community Development

Taiwan companies are investing in education, culture and social welfare related projects. With regards to community involvement, companies still need to facilitate stakeholder engagement in their CSR practice. While 46.2% of foreign enterprises have built up a system for communication and dialogue with stakeholders, only 26.7% of TSEC-listed companies have indicated a willingness to work on this. Among these TSEC-listed companies, only a third are willing to communicate with community residents. NPO sector involvement in community development projects also paints a poor picture in Taiwan. Over 40% of TSEC-listed companies and 65.6% of GTSM-listed companies do not have any experience in working with NPOs to promote CSR practices together.

Nonetheless, community investment projects have a high innovative potential in Taiwan. One of the community projects by "Pay Easy" that won the Global View Monthly's CSR creative vision contest in 2011 is to build a "My One Acre of Rice" adoption platform and help rice farmers get connected directly with customers at the other end of the food supply chain.

The Players

A. Public Initiatives

The government takes a leading role in implementing CSR in Taiwan. There is a continuous effort to convert CSR guidelines into legal regulations, to stress the necessity of CSR and to consult and support companies in implementing CSR in business.

The Ministry of Economic Affairs (MEA) is the main entity responsible for the implementation of CSR, together with different departments and administrative agencies. MEA is also responsible for increasing the awareness of sustainable management practices, by conducting research projects in cooperation with other institutes and supporting events such as discussion roundtables and training workshops.

Its two main implementing divisions are the Industrial Development Bureau, which is responsible for the implementation of the Corporate Environmental Reports and Sustainability Development Reports of Taiwanese businesses, and the Department of Investment Service, which supports several CSR projects such as seminars, research and evaluations, and CEO interviews.

In December 2002, the Ministry of Economic Affairs organised the first seminar-training on "Corporate Social Responsibility and Sustainable Principles and Guidelines for Multinational Enterprises". Within the same year, the Department of Investment Service (DIS) in the Ministry of Economic Affairs initiated the discussion on CSR-related issues. In 2004, guidelines were issued by the DIS, which listed case studies of CSR in Taiwan as reference for corporations.

Most significantly, action has been taken at the highest levels of government, with the Taiwanese Cabinet unveiling in 2008 an energy-saving drive, for which then-Premier Liu Chao-shiuan said the government would use policies to force the Taiwanese industry to go "green," while encouraging the public to change their living and transport habits. The plan incorporates measures to encourage industries to adjust their energy usage, including an offer of a NT$50 billion (US$1.64 billion) low-interest rate loan from the government to help industries install energy-saving facilities and low-carbon equipment.[468]

Publicity and Media

The Taiwan media plays an important role in pushing forward the popularity of CSR. Early in 2003, an influential local magazine, Global View Monthly, started to advocate CSR among businesses, and later in 2005, conducted a nation-wide CSR survey to understand the status quo of CSR in Taiwan business. The magazine has also started an annual CSR Award to highlight companies that have sound local CSR practices. The Award has attracted an increasing number of private sector participants, and has evolved from selecting the company with the best overall CSR performance to selecting the company with the most outstanding CSR programme. This has attracted significant public interest, and helped create a more CSR-friendly environment.

B. Industry Initiatives

Large industrial associations such as the Taiwan Computer Association and Taiwan Electronic Equipment Industry Association have an important role in encouraging CSR across the industry. As the third governance structure other than market and state, industrial associations play an important role in encouraging the implementation of CSR among members through association self-discipline.

International associations also play an important role in encouraging the implementation of CSR in Taiwan. In 2004, IBM, DELL and HP announced a CSR Code of Conduct for the Electronics Industry, that later formed the basis of the influential Electronic Industry Code of Conduct (EICC).

C. NGO Initiatives

The Taiwan Association for Corporate Social Responsibility and CSR in Taiwan are two prominent organisations promoting CSR in Taiwan. The Taiwan Association for Corporate Social Responsibility is a registered Organisational Stakeholder of the GRI and supports the mission of the GRI to develop globally accepted sustainability reporting guidelines through a global, multi-stakeholder process. CSR in Taiwan is an online platform that collects and centralises information (e.g. press releases, articles, journals, outstanding CSR practices and strategies) related to CSR.

Current Status

The Asian Sustainability Rating (ASR) survey[469] on ESG reporting places Taiwan at the top with the highest scores in supply chain management because of its globally renowned IT sector. However, the ASR report adds that the "leadership position was driven by strong reporting of the top 14 companies in the universe… Beyond this leading group, sustainable supply chain management was non-existent". The report continues to say that Taiwanese companies demonstrate an extremely low level of disclosure on governance and that "ESG management is still far from the norm in Taiwan".

The Global View Monthly reports that for companies in Taiwan, CSR is taking on a more important role in the definition of business strategies. In 2005, 27.6% of public listed-companies released information on their CSR programmes; in 2006 this rose to 55.3%.[470] There is, however, a divide between TSEC-listed companies and GTSM-listed companies. Over half of TSEC-listed companies have set up CSR-related departments with full-time staff, while over 60% of GTSM-listed companies have not incorporated CSR as part of their corporate operations.[471]

According to the Ministry of Economic Affairs' 2009 research report, Taiwan's Present and Future Prospects of CSR Report, the issues of most concern for Taiwanese companies with regards to CSR implementation are:

1. Protection of the environment, 85.1%
2. Respect for human rights and labour rights, 83.7%
3. Improvement of CSR disclosure and transparency, 80.9%
4. Participation in social development, 64.6%
5. Strengthening partnership with stakeholders, 58.0%
6. Protection of consumer rights, 55.6%
7. Maintenance of fair competition, 34.7%
8. Anti-bribery and anti-corruption, 30.6%

There is an ongoing process of implementation of CSR through usual business methods, but there is a lack of transfer in best practices through the use of standards, guidelines and evaluation methods.

Imperative for Change

From optional to imperative, CSR has now become an important key that maintains the competiveness of Taiwan businesses and drives innovation. Taiwan's economy is highly dependent on external trade, particularly with the mainland China market. The Foxconn and Apple incidents have been driving the general public and consumers in China to be more socially and environmentally conscious, and demanding better CSR from companies. Internationally, businesses in Taiwan are also facing top-down pressure to embrace CSR to maintain export competitiveness and compliance with global standards.

Nevertheless, there is much room for improvement - the 2010 data shows that only 32.7% of TSEC-listed companies and 10.9% of GTSM-listed companies have released CSR-relevant reports in the past. And only 30.2% of these reports are verified by third parties. Many companies express their misgivings about international standards and most are concerned about costs as well as corporate reputation.

Moving Forward

Reviewing CSR in Taiwan, what emerges is an ambivalent picture in the areas of policy making, business strategies and social influences on CSR practices. While more guidelines and regulations in the fields of sustainability, corporate governance, environment and social responsibility emerge, the government itself has not fully succeeded in bringing its own statements into practice.

As Taiwan continues with its export-led growth strategy, there is a need to develop CSR in order to maintain its competitiveness, particularly amongst Western consumer markets. The export-driven economy and the growing market competition make it necessary for Taiwanese businesses to embrace international standards. The pressure on companies to follow internationally defined guidelines, not only within companies but throughout the supply chain, makes it even more important to consider international standards.

China as a future market and important trade partner for the export-oriented economy of Taiwan reinforces the pressure to improve CSR performances. CSR is slowly moving from being a government-driven initiative to a business-driven one because of the ongoing business imperatives.

Furthermore, global civil society organisations as well as international media are fostering this development and play an important role in building awareness of integrity in business practices. Also, it cannot be ignored that the domestic media is playing an increasing role in monitoring business activity by reporting corporate transgressions as illustrated by the Foxconn and Apple scandals.

Additionally, the deep-rooted Confucian family values that influence fair and sustainable business activities hinder adoption of CSR across the business sector. A feeling of injustice is evolving in society, set against the political and business cronyism that is revealed through media reporting.

Overall, CSR in Taiwan reflects a general tension between local reality and globally defined requirements. Nonetheless, we find the increasing development of CSR in Taiwan through:

- Economic-driven pressure of integrity in business practices, including the supply chain;
- Governmental influences such as the change of Chinese policies in the areas of labour and business practices;
- Increased media reporting; and
- International evaluation systems including consumers' interest, CSR awareness and international organisations defining global evaluation standards.

These imperatives for change are a chance for increasing implementation of CSR in Taiwanese businesses. To get a well-integrated CSR system, there are still many challenges to face – corporate governance, labour practices and environmental performance, to name a few sectors which are behind international standards. The ongoing social awareness on sustainability issues and the integrity of business practices beyond cultural constraints are a must for implementing CSR in Taiwanese society.

16 THAILAND

The Sufficiency Economy

Abstract

As CSR is adopted and adapted as a business strategy, commentators on CSR in Thailand affirm that companies have always practiced CSR in one form or another, and are now identifying existing practice under the CSR banner.

In a country untouched by colonialism and Western influence, Buddhism and its teachings of *dharma* play an important role in defining the business-stakeholder relationship in the country. Thai companies have conventionally supported, through charity and traditional philanthropy, causes such as education, sports, cultural and religious events, general community well-being and emergency relief in the event of natural disasters.

The Royal Foundations, amongst the largest and strongest development organisations in Thailand, have adopted CSR as the new frontier within their programme agenda. Given the tradition of the Thai business community in making substantial annual contributions to the Royal Foundations to carry out their development agenda, this move has led many in the business community and civil society to seek new ways to initiate and support CSR efforts.

The "sufficiency economy philosophy" first put forward by His Royal Majesty, King Bhumibol Adulyadej of Thailand several decades ago and reaffirmed after the 1997 Asian financial crisis, is an important tool to manage capitalism in a way that economic progress can go hand-in-hand with sustainable social development, and the philosophy goes a long way in setting the standard for responsible business behaviour.

Amongst the institutional players, the Stock Exchange of Thailand has been instrumental in being the first to advance the subject of good corporate governance as early as 1995, even before the Asian financial crisis.

The 1997 financial crisis brought home the interconnectedness of business and community to both international business and domestic players alike. Globalisation, supply-chain relationships and multilateral and government adoption of CSR as a strategic tool for economic development further lent it the credibility that was needed to raise the level of CSR practice in Thailand.

Background

- Gross Domestic Product: USD$263.722 billion (not adjusted for inflation).
- Population: 64 million people.
- Gross National Income (based on Purchasing Power Parity international dollars): USD$7,800.
- Number of businesses actively communicating on their progress as UN Global Compact signatories: 19.[472]

Historical Context

In Thailand, Buddhism provides the socio-religious context for the business approach of taking care of communities in the vicinity of the operations of the enterprise. The Buddhist tradition of "merit-making" (*tham bun*) or the practice of giving is the basis for performing good deeds (*karma*) via charity and alms-giving at the individual level, and philanthropy, sponsorships and employee volunteering within the business enterprise. Even today, it is not uncommon for people to seek food, shelter and education in Thai temples.

In a country untouched by colonial influences, the feudal "patron-client" culture persists in families and businesses, a carry-over from the relationships prevalent in old agrarian societies. The patronage culture is further endorsed by the initiatives of the royal family, which has a strong influence on the national development agenda. On 5 Dec 2007, on the occasion of the 80th birthday of His Royal Majesty the King Bhumidol Adulyadej, the National Agenda for Giving and Volunteering was initiated, and followed up with the establishment of the "National Centre for Giving and Volunteerism", by the Ministry of Social Development and Human Security, in collaboration with the UNDP, with the aim to promote a spirit of giving and volunteering in Thai society.

More recently, the Royal Foundations, amongst the largest and strongest development organisations in Thailand, have adopted CSR as the new frontier within their programme agenda.

In addition, in 2007 on the occasion of the 80th birthday of His Royal Majesty the King Bhumidol Adulyadej, the National Agenda for Giving and Volunteering was initiated, and followed up with the establishment of the "National Centre for Giving and Volunteerism", by the Ministry of Social Development and Human Security, in collaboration with the UNDP, with the aim to promote a spirit of giving and volunteering in Thai society.

Social Context

On the social side, economic prosperity through the 1980s and 1990s saw a rise in the number of non-profit and non-governmental groups, and increased civic engagement and public debate amongst civil society, academics and intellectuals. The Thai government took upon itself the task of social development and there was "a flowering of social and environmental activism throughout the 1990s…" resulting in a new "Peoples Constitution in 1997 that sought to increase public participation in policy and oversight of government activities."[473]

Economic Context

Since the opening of the country to global trade as a result of the Bowring Treaty in 1885, and given that Thailand is the only country in the region that was not colonised, business, trade and investment have always been the essential pillars of prosperity in the country. In addition, post-World War Two, Thailand chose the liberal market-oriented policies of the Anglo-Saxon world as a means to achieve economic growth and development. The astounding economic growth in gross domestic product (GDP) of 9.1% annually in the period 1985-1996[474] saw Thailand emerge as a middle-income country in the mid-1990s.

Rapid industrialisation through the 1980s and early 1990s resulted in a variety of social and environmental problems.[475] In Thailand, the early 1990s were marked by several industrial accidents, and corporate scandals which highlighted the inadequate occupational safety conditions, weak product quality guidelines, wage discrimination and gender inequality in the workplace. In environmental terms, lax industrial waste disposal laws resulted in air and water pollution and land degradation.

The overall negative effects of Thai industrialisation were slowly recognised and government responded by introducing the Environmental Act in 1992, encompassing land, water and air pollution; and the Labour Protection Act in 1998 in order to provide workers and employees with better protection in terms of minimum wages, suitable and safe working conditions and maternity rights.

The Sufficiency Economy Philosophy

With rapid economic growth, in addition to industrial pollution, environmental degradation and occupational safety came the twin problems of worsening income distribution and the inability of the government to keep pace with living standards and social services for a large part of the population. The 1997 Asian financial crisis only added to this disparity.

Post crisis, the "Sufficiency Economy Philosophy", put forth by His Majesty the King throughout his reign stressing the "middle path", began to take precedence over the unquestioned pursuit of short term profitability. The middle path lays emphasis on optimising profits balancing the social, environmental and other stakeholder interests as against maximizing profits at the expense of all else. The sufficiency economy philosophy is viewed as an important tool to manage capitalism in a way that economic progress can go hand-in-hand with sustainable social development.

In 2006, the Department of Economic Information put out the following interpretation, "Informed by the sufficiency economy approach, the nation's economy will pursue a path of moderation towards development. The primary indicator of overall development will no longer be GDP growth in and of itself, but also the reduction of poverty and social inequality. Thailand will also seek to develop indicators to capture well-being and happiness to ensure that the country's development is balanced and sustainable."[476]

Further, the theory of sufficiency economy was very succinctly described by the then Thai Prime Minister, Surayud Chulanot, in the foreword to the Thailand Human Development Report of 2007 "…advocating economic stability over unbridled growth. It celebrates sustainable development, sound macro-economic policies, and the equitable sharing of the benefits of economic prosperity."[477]

According to Dr. Priyanut Piboolsravut, of the National Economic and Social Development Board of Thailand, the sufficiency economy philosophy framework comprises three components – moderation, reasonableness and self-immunity, i.e. the ability to withstand internal and external changes; careful application of knowledge; and morality, that is, honesty and integrity in all actions. Prof. Kantabutra, of the College of Management at Mahidol University, asserts that the philosophy serves as a guide for a way of living for all people and is scalable with a universal domain, including business organisations.[478]

Clearly, the sufficiency economy philosophy provides an alternative development paradigm. The concept is premised on business' commitment to maintaining long-term performance without compromising the views of a wider range of stakeholders who represent the environment, society and future generations.[479] It could be seen as precursor to CSR in Thailand or in many ways as a Thai interpretation of CSR or at times a competitor to CSR as promoted and advocated by the Western multinationals. Kuasirikun believes that "…the initial response to global business pressure has evolved into a strategic approach to the holistic improvement of Thai business performance within the context of the wider socio-economic and developmentalist ethics of Thai society."[480]

Development of CSR[481]

Exhibit 16.1: CSR Timeline of Thailand

Date	Milestone
1992	Environmental Act introduced.
1993	Establishment of the Thai chapter of the World Business Council for Sustainable Development.
1997	Introduction of a new "Peoples Constitution" that sought to increase public participation in policy and oversight of government activities.
1998	Labour Protection Act introduced.
1999	Local chapter of the Social Venture Network established.
Nov 2001	UN Global Compact was introduced in Thailand.
2001	Thai-American development institute, the Kenan Institute Asia, launched training programmes for corporate executives to improve the efficiency, effectiveness and sustainability of CSR programmes.
2006	Stock Exchange of Thailand announced the first SET CSR awards to recognise listed companies that demonstrate exceptional contributions to society.
Jun 2007	Ministry of Social Development and Human Security established the CSR Promotion Centre to function as the government centre tasked with promoting CSR and formulating national policy on CSR in Thailand.
5 Dec 2007	National Agenda for Giving and Volunteering was initiated
2007	The theory of sufficiency economy is described in the foreword to the Thailand Human Development Report 2007.
Jun 2009	SET's CSRI and the Thaipat Institute initiated a CSR Day for Directors.
Nov 2009	UNESCAP Regional Conference on Corporate Responsibility: "Why Responsible Business Conduct Matters".
2009	Product Responsibility Law passed.

Thailand's economic achievements, hailed as one of the great success stories of Southeast Asia, saw a drastic downturn in the 1997 Asian financial crisis. The financial crisis pushed business corporations to recognise the interconnectedness of business and the community. In addition, for the first time, the business community saw the environment as a non-renewable resource, eventually leading to local business' acceptance of CSR, until then seen by them as an imperative only within the MNC world.

Furthermore, following the adoption of the 1997 Kyoto Protocol, rapid globalisation of supply chains and the corporate scandals around the world at the turn of the century eventually led the Thai government to improve regulatory control in the private sector.

The international business community in Thailand, absent of any major transgressions as elsewhere in Asia, made gradual, incremental changes in attitude towards the subject of CSR from the late 1990s to the mid-2000s. Large multinationals slowly adopted a more holistic approach to the conduct of their business in Thailand in response to international pressures emanating from environmental disasters and scandals over child labour and exploitation in other developing countries world over.

As a consequence, companies and supply chains in Thailand, especially those trading with multinational firms, gradually put in place relevant policies directed at not only their workers and the environment but also the community at large. In addition, in order to maintain its edge in international markets, Thai supply chain manufacturers felt pressured to conduct their businesses in compliance with various international certifications, namely health product quality management (ISO 9000), safety at work (ISO 18000) and environmental management (ISO 14001). In particular, Thai garment exporters were required by their international trading partners to improve their record of social and environmental responsibility.

The Players

CSR was first introduced to Thailand by a number of joint Thai-international efforts to develop responsible business practices. One of the earliest was the establishment of the Thai chapter of the World Business Council for Sustainable Development in 1993 with a membership of 27 leading businesses in Thailand.

A. Public Initiatives

CSR Promotion Centre

The Royal Thai Government, having begun the process in 2007, is still formulating public policy on CSR.[482] In June 2007, the Ministry of Social Development and Human Security established the CSR Promotion Centre to function as the government centre tasked with promoting CSR and formulating national policy on CSR in Thailand. The CSR Promotion Center has also set up a website to disseminate information on CSR and created a database of CSR activities in Thailand organised by listed companies.

Several government departments have since adopted CSR policies. The Ministry of Labour has encouraged employers to enter the Thai Labour Standard System (TLS 8001-2003) to help protect and promote a better living for employees. The Ministry of Industry has announced the Standard for Corporate Social Responsibility: CSR-DIW to act as a guideline for entrepreneurs in Thailand.

There are also tax incentives for those businesses that adopt CSR, such as tax reductions for companies employing energy saving technology or businesses that give donations to charities. The Ministry of National Resources and Environment under the Environmental Quality Management Plan (2008-2011) encourages entrepreneurs to take into account environmental preservation and encourages the adoption of clean technology in production processes. In terms of guidance on CSR, in March 2009 the Thai government set up an ad-hoc committee to consider whether incentives should be offered to Clean Development Mechanism projects.

Product Responsibility Law

More recently, in terms of legislation, Thailand passed the Product Responsibility Law in 2009 that focuses on the manufacture, import and sale of goods that cause or may cause injury. Until this legislation came into force the only avenue for recourse available to consumers was the Consumer Protection Act of 1979 under which damages were limited in scope.

National Corporate Governance Committee & Corporate Governance Center

The Thai government designated the year 2002 as a year of good corporate governance and established the National Corporate Governance Committee[483] (NCGC) to set out policies, measures, and schemes to upgrade the level of corporate governance in Thai business. In the same year, the SET established the Corporate Governance Center to help listed companies develop their corporate governance system. The Center works closely with the NCGC and provides consulting services to and exchanges ideas about corporate governance practices with directors and executives of listed companies, as well as those of firms preparing to be listed companies.

Securities and Exchange Commission

In 2008, the Securities and Exchange Commission set up a working group to promote CSR and establish CSR guidelines for Thai companies. The government has since been active in supporting the CSR working group.

B. Private Initiatives

Stock Exchange of Thailand

The most important player in the CSR space is the Stock Exchange of Thailand.[484] SET first entered the good governance space in 1995, studying the role of the audit committees of companies. In 1998, it issued a listing requirement for all listed companies to have an audit committee and issued the "Code of Best Practices for Directors of Listed Companies". In 2000, a report on corporate governance set a framework to be used by companies in the Thai capital market for developing good corporate governance systems and practices.

In 2006, the SET entered the CSR space and announced the first SET CSR awards to recognise listed companies that demonstrate exceptional contributions to society. SET's Foundation continues to support those who lead in the CSR space, honouring them through the Social Recognition Project. In 2010 SET gave grants totalling approximately USD 400,000 to six organisations working in diverse fields, from education development, library development, urban development, rural development, music and sport.[485]

In 2007, SET established the Corporate Social Responsibility Institute (CSRI) [486], to encourage the business sector to promote the concept and practice of corporate responsibility and support business-stakeholder engagement. In June 2009, the SET's CSRI and the Thaipat Institute initiated a CSR Day for Directors[487] in a bid to steer the next generation of leaders towards sustainable business and social development.

The programme aims to build awareness of incorporating CSR policies into operations and highlights the methodology in applying the guidelines to practice. Standard CSR practices - such as those from the UN Global Compact, OECD Guidelines, ISO 26000 and Global Reporting Initiative – are presented to the directors and corporate executives. Currently, any interested company can book an activity date with the CSRI or Thaipat Institute.

In 2010, the SET CSRI and the Thaipat Institute announced their support for the "green" trend, focused on environmentally-friendly customer behaviour. As SET Executive Director and CSRI President, Chaiyoot Chamnanlertkit revealed, "CSRI was established to be a center to strengthen networks among and between businesses, the public, and society. CSRI focuses on social and environment responsibilities in business process and gives significance to all stakeholders, including employees, shareholders, and other relevant parties. CSRI will encourage CSR consciousness and understanding about CSR activities that the organisation can handle by itself."[488]

In November 2010, the Thaipat Institute and CSRI held a Global Reporting Initiative introductory workshop for the first time in Thailand with the aim to establish awareness around the GRI-G3 Framework and also create a "common language" around the use of G3 guidelines in managing and reporting social, economic, and environmental impacts of a business.[489]

Kenan Institute Asia

In 2001, the Thai-American development institute, the Kenan Institute Asia (KIAsia)[490], launched training programmes for corporate executives to improve the efficiency, effectiveness and sustainability of their CSR programmes. KIAsia, a Thailand-based non-profit development organisation provides project management, consulting, training and research services to corporate, government and multilateral clients in the field of entrepreneurship, business and economic development, education, public health and corporate responsibility.

CSR Asia Center at AIT

CSR Asia, founded in Hong Kong in 2004, established a partnership with the Asian Institute of Technology (AIT) in Thailand and set up the CSR Asia Center at AIT[491] (CSRAC) in 2011. CSR Asia provides information, training, research, and consultancy services on sustainable development practices in Asia and promotes CSR in the Asia-Pacific region. In March 2011, CSR Asia in partnership with the School of Management at the AIT introduced a Master's degree programme in CSR.

C. Industry Initiatives

Thailand Business Council for Sustainable Development

The Thailand Business Council for Sustainable Development[492] (TBCSD) actively promotes environmental and sustainable development awareness and practices for the business sector and the public. Some key initiatives since its launch have been:

- Initiated in 1996, the TBCSD ISO 14001 project, has seen more than 900 Thai corporations successfully receive ISO 14001 certification. This success inspired the TBCSD to champion the implementation within schools in 2005, with the aim of promoting environmental management systems and influencing tomorrow's business leaders and thereafter target hospitals too. Six schools have already participated in this project and have received ISO14001 certification.
- In association with the Thai Industrial Standards Institute, and the Ministry of Industry, the TBCSD initiated its "Green Label" Project in 1993 to develop and award specific products that have minimum detrimental impact upon the environment. More than 137 products in 18 categories have now received the coveted Green Label as of 2005.
- "The Greening of the Supply Chain" was initiated in 2004 as a tool to pursue environmental friendly and green procurement policies down the supply chain.
- The "AU-TBCSD Centre for Sustainable Enterprise Management (C-SEM)" was established in 2004 with the cooperation of Assumption University (AU). C-SEM aims to raise awareness of business sustainable development practices among students, especially among those enrolled in the BA and MBA programme, as well as among business managers in order to integrate sustainable strategies with mainstream business management practices.
- Other projects in the works include carbon labeling for buildings and low carbon products.

Social Venture Network

In 1999, the US-based Social Venture Network launched its Asia chapter, Social Venture Network Asia[493] in Thailand to create a community of investors and non-profit social leaders to share knowledge, experience and resources and to develop businesses with a more socially and environmentally responsible agenda.

Thaipat Institute

The first Thai effort was the Thaipat Institute[494] established in 1999, a public-interest organisation set up by the Thai private sector with the primary objective of promoting socially responsible practices and the "sufficiency economy philosophy", among the Thai business sector. The Institute conducts research on sustainability and CSR issues and provides training, and consulting services to the private sector in the same space.

D. NGO Initiatives

UN Global Compact

The UN Global Compact was introduced in Thailand in November 2001 at the International Labour Organization's Regional Employer's meeting. The current focal point for the UNGC in Thailand is the Employer's Confederation of Thailand as there is no dedicated Global Compact Local Network in Thailand, highlighting the fact that perhaps the country has been slow in the uptake of CSR. As of February 2011, 27 Thai companies and organisations were signatories to the GC principles[495], almost all of which are export-oriented companies. This clearly reveals the motivation for local companies when aligning with global standards, which enable them to compete on an equal standing worldwide.

Conferences and Other Events

In addition to the above institutional entities, a number of CSR conferences, corporate and multilateral efforts have encouraged wider thought and debate on CSR among practitioners, academics and the media in Thailand. In this respect, various forums, seminars and conferences organised in Thailand since 2006 have sought to explore the wider applicability of CSR in the Thai context and discuss and adapt CSR to the Thai socio-economic context. Such initiatives have motivated business enterprises to address CSR expectations and experiment with CSR initiatives within the business and outside in the community.

A couple of years on, media coverage of and academic discussion on business responsibility are beginning to offer studied reflections on CSR best practices in Thailand, in a bid to unite understanding and expectations and to prompt more comprehensive research in the future.[496]

ISO 26000 Spotlight: Fair Operating Practices

By 1998, not one member of ASEAN had developed its own competition law. Today, Thailand, Indonesia, Singapore, and Vietnam all have full-fledged national competition laws in place. With the exception of Thailand, the enactment of competition laws in ASEAN countries resulted from international commitments rather than from domestic policy.[497]

Of the top 5 companies by market capitalisation, Kasikornbank stands out. To encourage good governance and meet targets related to its implementation, the Bank has initiated guidelines to control, supervise and prevent transactions that may involve conflicts of interest, or Connected or Related Transactions, to be in compliance with standards of good governance.

The Board of Directors has established Conflicts of Interest Prevention and Connected Transaction Policy, as well as guidelines to consider appropriateness in the conducting of transactions that must undergo the scrutiny of the Audit Committee, and ensure compliance with the criteria of the Office of the Securities and Exchange Commission, the Capital Market Supervisory Board, the Stock Exchange of Thailand and the Bank of Thailand.[498]

Current Status

Over the last few years, several surveys of Thai businesses have thrown up varied results.

CSR Asia Center

A 2010, a CSR Priorities Survey carried out by CSR Asia Center at AIT[499], ranked the importance of 15 CSR activities, among a varied group of stakeholders – corporate, scientific, government, NGO – all with a high level of CSR awareness. Environment, health and safety and corporate governance top the list in that order, followed by combating bribery and corruption, support for human rights and community investment and volunteering. In keeping with a weak consumer movement and civil society pressure, issues such as stakeholder dialogue, supply chain codes and product and service responsibility are ranked below 9th place.

Association of Thai Registered Companies

In 2008, the Association of Thai Registered Companies conducted a survey among 460 SET-listed companies on their CSR initiatives in the first quarter of 2008.[500] The survey results reveal that a majority of companies see CSR as corporate giving and charity supporting causes such as education, health and other social disadvantages within the community, often neglecting community engagement, environmental and human rights issues. In terms of employee volunteerism, multinationals and larger companies tend to have more exposure and hence more experience in running employee volunteer programmes. Research on SMEs in Thailand[501] shows that they tend to multi-task their employees and are therefore unable to assign free time for volunteering in the community.

Grant Thornton

According to the Grant Thornton International Business Report 2008[502], when asked about factors driving CSR initiatives, privately-held businesses in Thailand indicated that tax relief was the primary motive (94%) for adopting socially responsible practices, significantly higher than any other country, followed by cost management at 78% and government pressure at 63%. Others reasons such as public perception, brand recognition, recruitment and staff retention ranked much lower in the Thai managers consciousness. In contrast, globally, in this 34 country study, 65% of businesses cite recruitment and staff retention as their main driver, closely followed by cost management (63%) and with public attitudes and brand building at 56%.

ISO 26000 Spotlight: Environment

Thailand has had environmental laws or laws with environmental aspects for many years. As is evident, however, strict enforcement has hardly been the norm. Administration of Thailand's 70-plus environment-related laws is a bureaucratic nightmare. At a certain point in time, at least 14 different agencies were responsible for traffic and air pollution standards and controls, more than 10 government agencies for water management and treatment, and 4 government agencies for control of pollution in the Chao Phraya River alone.[503]

Thailand has an eclectic approach to environmental law and policy, which incorporates Buddhism, animism and local knowledge. Buddhism is the country's main religion, and many people still have animistic beliefs. These belief systems include ideas that promote sustainable development, and along with local knowledge, can be used to foster environmental protection. These are largely neglected sources of Thai knowledge and tradition which may be successfully incorporated into Thailand's environmental protection efforts. This is especially important because pollution and conservation problems cross all geographic boundaries, and what happens in one country affects others.[504]

Of the top five most capitalised companies, The Siam Cement Public Company Limited stands out. In its drive toward sustainable management, SCG has established a SCG Sustainable Development Committee. In addition, SCG SDC has set up a number of working committees to oversee the specific areas of activities. SCG has initiated Clean Development Mechanism projects to reduce GHG emitted from manufacturing processes. It has also joined the Carbon Labeling Program, receiving the emission reduction certification for Portland cement, ceramic tile, and wall tile. SCG is the first company in Thailand to adopt Green Procurement initiatives, since 2004.[505]

Thailand Business Council for Sustainable Development

A 2006 study, Interpretation of CSR in Thai Companies[506], of seven leading Thai public companies from the 28 corporate members of the Thailand Business Council for Sustainable Development, reveals that the practice of CSR in Thailand is at an early stage and is concentrated in a few concerned large corporations. Insights from in-depth interviews reveal a range of different practices and interpretations: community engagement initiatives play a vital role in these leading companies; philanthropy is given much less emphasis; there are limited efforts towards transparency and stakeholder engagement; the linkage between CSR and corporate governance is recognised but the latter is a new concept in a sector dominated by family-controlled companies; and although top management is a crucial internal catalyst, involvement at the board level is still limited. The study reveals that as there is "no consensus on the scope of CSR", companies differently identify ethics, philanthropy, environment, social and community engagement as CSR. And as such, none has specific policies on CSR.

Interestingly, "any policy or practice concerning the welfare and occupational safety of employees and workers is perceived as a human resource issue" and not CSR. As the Siam Oil respondent noted "to my personal understanding 'society' in our mission means other people. For us, employees are part of our family". Such is the Asian view that it is hard to then push the formal international frameworks and standards as put forth through GRI, UNGC or ISO.

Moving Forward

CSR as defined by MNCs in developed countries has been slow to take hold in Thailand. It continues to be seen as a foreign concept with little consensus among business leaders, academics, practitioners and government about the definition, focus and scope of CSR. There is a strong inclination within the Thai business community to provide a unique Thai interpretation to the global CSR tenets being pushed and a recognised need for home-grown, culturally sensitive approaches to CSR. There is currently little Thai influence on current approaches to CSR, and some believe that imported CSR models are not completely relevant to the Thai culture and do not translate well into the Thai context.

As a culturally non-confrontationist society, advocacy and debate are seldom used as a means to instigate change in Thailand, though the current political impasse belies that trait. As a consequence, Thailand has a weak consumer rights movement, in that consumer demand for socially and environmentally responsible corporate behaviour and products is weak. The absence of a strong consumer rights movement to raise awareness, combined with weak enforcement of consumer protection legislation, provides little incentive for business to significantly alter behaviour.

While there has been significant effort to build CSR awareness in Thailand through discussion forums, meetings and training, a limited knowledge of the value and practice of CSR remains. With companies in Thailand still on a learning curve, there remains a need for the government to play a role in promoting and supporting CSR approaches, providing incentives to businesses to practice CSR, setting standards of good governance and environmental stewardship. It is noticeable that, with the exception of the Stock Exchange of Thailand, industry and trade associations, like the Federation of Thai Industries or Thai Chambers of Commerce are not as involved in building knowledge and understanding of CSR for their members.

Drivers

So what is driving the uptake of CSR in Thailand? Religion and traditional socio-cultural community relationships provide a good backdrop to charity and philanthropy in Thailand. In a similar vein, MNCs have raised their profile both within the community and at the operational level, forcing domestic companies to follow suit. In addition, globalisation, international market access and partner- and peer-pressure are central to the considerations given to CSR in Thai businesses, as is public perception of company and brand image.

SET

Internally, the Stock Exchange of Thailand is playing an important role in pushing both the good corporate governance as well as the CSR agenda. SET, together with the SEC, closely monitors publicly-listed companies and recognises company performance on the governance and CSR front. Corporate governance and board independence are still new concepts in Thailand and need a lot more effort to gain acceptance. As such board involvement in CSR strategy and integration into company operation is relatively low. Even in companies involved in industries with a high impact on the environment, transparency in environmental and social performance disclosure and reporting is patchy.

Monarchy

More so, the dominant driver is perhaps the strong influence and participation of the monarchy on the sustainable development front through its endorsement of the "sufficiency economy philosophy", which sets the bar for responsible business behaviour. According to Dr. Nooch Kuasirikun of the Nottingham University Business School, "…The main aim of CSR in the Thai context has therefore become the achievement of broad-based sustainable development for Thailand in social, environmental and economic terms, while at the same time allowing business to profit ethically from the socio-economic stability that such sustainable development brings."[507]

SMEs

It is important to note at this point that large enterprises make up a very small fraction of all enterprises in the country. Hence the CSR movement will be defined by the SME sector in Thailand, the work of which is largely inaccessible to the foreign researcher. Dr. Pipat Yodprudtikan, of the Thaipat Institute, stated at a November 2009 UNESCAP Regional Conference on Corporate Responsibility that almost all information on CSR in Thailand is written in Thai, making it difficult for foreign researchers to report accurately on the state of CSR development in Thailand. He also highlights the fact that in 2008 SMEs made up 99.7% of enterprises in Thailand with large enterprises accounting for only 0.2% of all enterprises.[508] Furthermore, 70% of large enterprises are located in Bangkok or its vicinity, whereas for SMEs the reverse is true. Exposure to practice and knowledge of globally defined concepts of CSR is far greater in the city than in the outer regions. With SMEs employing 76% of the workforce[509], the development of CSR may take on a very indigenous hue.

Unique in Thai CSR literature is a clear distinction made between CSR in-process and CSR after-process. CSR in-process is defined as, preventive measures integral to the production and operational processes to ensure that products and services create zero or minimal detrimental impact on employees, the environment and society at large, whereas CSR after-process is seen as a retrospective and remedial process that is frequently used as an attempt at corporate image management.[510] Despite the fact that there is a general recognition by the Thai business community that CSR entails both in-process and after-process strategy, the general trend among companies is still to engage in CSR after-process.

However, this thinking lays the foundation for a strong intrinsic business responsibility and ultimately, amid the increasing popularity of CSR, it is likely that CSR in-process will take hold and bring the most benefit in terms of sustainable development contributing to the "sufficiency economy" doctrine promoted by the King. This ties in with the Buddhist belief that corporate philanthropy is reciprocal and therefore not nearly as good karma as an individual's (and by extension a company's) "doing the right thing in the first place".

In addition, in the UNDP-UNV study[511] Prayukvong and Olsen assert that the spotlight on CSR has encouraged a better working environment with stronger enforcement of legal compliance, fair labour standards, smoother management through stakeholder relationships and stronger corporate social engagement and philanthropy.

As Dr. Nooch Kuasirikun concluded in the context of Thailand (but in my view the same holds true globally), "The question increasingly asked of companies is not simply whether the company is profitable, but also how the profits are actually made and at whose expense. Some companies may have implemented measures that would render their production process more socially and environmentally friendly, others have continued to focus on making philanthropic contributions, and a few have simply deployed CSR as a business strategy for marketing purposes. Many more have yet to address the issue of CSR or have been selective in its implementation."[512]

Endnotes

Chapter 1 - Introduction

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Chapter 5 – ISO 26000 Country Comparison

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Japan - Toyota Motor Corporation, Mitsubishi UFJ Financial Group, Inc., NTT DoCoMo, Inc., Nippon Telegraph And Telephone Corp., Honda Motor Co., Ltd. **India** - Reliance Industries Limited, Oil & Natural Gas Corporation Limited, National Thermal Power Corporation Limited, National Minerals Development Corporation, Bharti Airtel Limited

Indonesia - Telekomunikasi Indonesia Tbk, Astra International Tbk, Bank Central Asia Tbk, Bank Mandiri (Persero) Tbk, Perusahaan Gas Negara (Persero) Tbk **Malaysia** - Public Bank Berhad, Malayan Banking, CIMB Group Holdings, SIME Darby, Tenaga Nasional Berhad

Philippines - Philippine Long Distance Telephone Company, Bank of the Philippine Islands, Ayala Corporation, Ayala Land, Inc., SM Investments Corporation **Singapore** - SingTel, Wilmar International, DBS, UOB, OCBC

South Korea – Samsung, POSCO, KB Financial Group, Shinhan Financial Group Co, SK Telecom

Taiwan - Taiwan Semiconductor Manufacturing, Hon Hai Precision Industry, MediaTek, Formosa Plastics Corp, Nan Ya Plastics

Thailand - Siam Commercial Bank, PTT Public Company Limited, Bangkok Bank, The Siam Cement Public Company Limited, Kasikornbank

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