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Corporate social responsibility – An idealistic goal or a reality?

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"It is not the strongest of the species that survive nor the most intelligent, but the most responsive to change."

- Charles Darwin

“Change” is a simple word. It is used often but necessitates one to move from a familiar state to a state that is new or unknown. In the dictionary, one of the meanings of change is *“to make the form, nature, content, future course, etc., of (something) different from what it is or from what it would be if left alone”* ***[1]***. In recent decades, change has come to the business world as a quantum shift in what is required of them to “earn” a social license to operate in the form of corporate social responsibility (CSR).

Despite widespread discussion on CSR, there continues to be much disagreement around what constitutes CSR, and how to define it. In addition, the term is often used interchangeably with notions such as corporate responsibility, corporate citizenship, triple-bottom line, sustainability, creating shared value, and in some cases, corporate ethics and governance. However, all of these ideas point in the same direction: a sharp escalation in the social roles corporations are expected to play today.

To further complicate matters, numerous debates rage within the CSR community. Does business’ focus on traditional charity and classical philanthropy count as CSR? Should CSR be voluntary or mandated? Is CSR a cost or a benefit? Is CSR a mere risk management tool or an effective branding and marketing one?

Whatever the definition, whatever view one takes on CSR, one thing is increasingly apparent: in order to maintain its social license to operate, business must engage with a wider and varied spectrum of stakeholders***[2]*** - doing nothing is not an option.

CSR’s western trajectory

So what does this change entail? In the West, as the negative externalities of the industrial revolution (air quality, acid rain, ground water pollution to name a few) caught up with the developed nations, governments, beginning in the late 19th century, designed regulation and legislation to guide business behaviour as it pertained to public goods.

Once again in the late 20th century globally, a steady stream of corporate scandals and crises of corporate governance has put a spotlight on business behaviour. The backdrop of corporate scandals new and old (Enron, WorldCom, Nike, Shell, Siemens, Union Carbide), globalisation, the intense competition for limited global resources, and more recently the financial crisis, has led to renewed attention to business’ role in society. Furthermore, as governments have failed to effectively regulate business or stem the catastrophic turmoil in financial markets, CSR has emerged from the margins to the board rooms of corporations.

Business’ historical contributions

Business’ involvement in ‘classical philanthropy’ such as building schools, hospitals and cultural institutions is well known, and in the Asian context has often been driven by business necessity. Far from being an add-on, business has had to step in in order to effectively operate amidst inadequate state welfare, healthcare, education and infrastructure . In recent history, in post colonial and post-conflict countries, business has had to contribute to nation-building, thereby innovatively redefining the parameters of what constitutes CSR.

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 century 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, the company towns of the US, and closer to home the Tata’s in India were all firsts in their respective countries: businesses that set the accepted standards of employment, manufacturing, governance and community engagement.

Asia – Where do we start?

In Asia, rapid growth and rising living standards have come hand-in-hand with greater inequality, economic vulnerability and social exclusion. There needs to be a paradigm shift from charity and philanthropy to a long-term strategy of inclusive growth, respect for human rights and operational efficiencies embedded in a company’s core competencies. Often companies are stuck in the “where do we start” dilemma. A company can start with reflecting on internal functions - operational efficiency [energy consumption, environmental impact], fair operating practices, human resource policies, ethics and governance, and move on to external engagement with stakeholders in their supply-chain, community and beyond.

Some sectors, like the natural resources and extractive industries have a natural start in terms of looking into issues of environmental impact, energy efficiency, respect for human rights and engagement with the local communities that are impacted by their operations. In the manufacturing sector, fair labour practices, operational health and safety, the supply-chain and consumer protection come to the fore. In the service industry where employees are the key resource, employee well-being and fair wages can take precedence.

It is often suggested that companies can start simply by deciding what social issue most impacts their business priorities and take a leadership role***[3]***. In much of Asia, legal compliance is still in question, and the potential exists to reap formidable benefits from enforcement and compliance of existing legal statues. To this effect in several countries in Asia, and elsewhere in the world, industry associations - more specifically, the stock exchange - has taken the lead in making non-financial disclosure (or ESG – environmental, social and corporate governance) a corporate obligation.

Mostly recently, in March 2013 the Singapore Stock Exchange (SGX) moved from a voluntary to a “comply or explain” basis for listed companies to produce Sustainability Reports. In India, the Securities and Exchange Board of India (SEBI) mandated ESG disclosure for India's top 100 listed companies in August 2012. Similarly Khasanah Nasional Berhad***[4]***, Malaysia published guidelines for government-linked companies on how to implement CSR measures.

In addition, stock exchanges have taken to issuing guidelines on corporate governance as requirements to listing at the stock exchange. Guidance on board composition, membership, remuneration, independence and performance are not uncommon today, as is advice on disclosure, transparency, accountability and audit responsibility of a Board.

Furthermore, non-financial reporting is becoming more and more important for global investors as a form of risk assessment. Companies need to have credible sustainability/citizenship/shared value programs to report and to avail of socially responsible investment funds.

In the face of all these pressures, businesses in Asia are facing demands for new skills and new types of staff, which brings us back to the idea of change. Corporate and institutional cultures need to respond to the change in stakeholder expectations that requires a change in the mindset across the board – starting from corporate leaders down to front line staff in every company. Asian companies have a choice: they can either lead or just react to the global conversation on what the social contract for business should be.

Bindu Sharma is the author of 'Context CSR in Asia: Corporate Social Responsibility in Asian Economies' which was published by the Singapore Management University's Lien Centre for Social Innovation in 2013