



**Asia-Pacific
Economic Cooperation**

Corporate Social Responsibility in the APEC Region

Current Status and Implications

Chapter 1: Synthesis

Background and Context

Corporate social responsibility (CSR) strikes a resonant chord in APEC. Changing modes of management practice have always been a significant concern for APEC institutions, particularly in the HRD Working Group. However, since the financial crisis of the late 1990s, risk management has been especially prominent in APEC thinking. Risk management has always been an important facet of prudent management practice, but there was a widespread feeling that it could be developed further in the APEC region as a partial antidote to future financial and economic instability. When thinking about risk management, the perspectives of the broader stakeholders on business performance become important. If the expectations and interests of these stakeholders are understood and managed effectively within businesses, risks attached to negative stakeholder behaviour can be identified and minimised. In this sense, risk management is closely associated with CSR, wherein the adoption of responsible management practices might be expected to reduce some risk factors.

More generally, CSR has been a growing feature of global management practice for a decade, well in train when the Asian financial crisis struck in 1997. The leaders in the field have been the globally-focused companies which have responded to two major challenges as they moved across borders. The first was the need to operate in very different regulatory environments. The second was the imperative to respond to the impact of increasingly knowledgeable consumer behaviour and the questions raised by transnational non-government organizations (NGOs) and other representatives of civil society. As a result many global operators set in place standards of operation that exceed local regulatory requirements (for example, in terms of employment conditions or environmental standards) and are demanded by consumers who wish to buy products from companies with acceptable standards. Many of these companies were operating across the APEC region, either through subsidiaries or through contract arrangements, and their example was observed by domestic companies in various APEC economies. Hence, in the search for effective business responses to the financial crisis, it is not surprising that the impact of CSR has grown in the region.

Stakeholders also promoted this development. In particular, governments in the APEC region became aware of the benefits that might accrue to CSR-type developments in the business sector. In a number of cases, there was explicit support from government for business practices that reflected a broader sense of stakeholder involvement in the impact of business decisions. Moreover, many other stakeholders (for example, ABAC in the APEC process) have become involved in the CSR debate.

It is important to recognise that the context for the development of CSR in the APEC region is not uniform. Member economies are at very different stages of development, and it is often the case that domestic management thinking may have priorities other than CSR. Thus, as we would expect, the extent to which CSR has been taken up varies across APEC member economies. This variable take-up provides an excellent opportunity for APEC to engage in useful capacity building around CSR, and it is for this reason that the HRD Working Group has set in place a series of projects that address the issue. Given the relative youthfulness of CSR itself, and given the different management priorities found across APEC member economies, these projects cannot pretend to be definitive in their outcomes, but must preserve an important sense of open-mindedness about the future of CSR in the region.

Project work undertaken in the APEC process indicates clearly that the need to build capacity around CSR cannot be overstated. In particular, this work has shown that the risk inherent in the variable, uneven or inadequate adoption of CSR poses real market threats in terms of trade outcomes. Import and export performance will, suggest the project outcomes, be adversely affected by such unevenness. Equally, a failure to understand the full nature of CSR is identified as a major threat.

Research conducted within the region shows the impact of a failure to address CSR issues directly. For example, a recent research in one developed APEC economy reports that over 60% of consumers now actively address CSR-type issues in purchasing behaviour, shifting away from brands that they do not believe to be socially responsible. It is likely that growing sophisticated consumer behaviour in the APEC region will increase this effect. It is recognised that the impact of consumer behaviour is currently felt more directly in developed economies, but may nevertheless cascade into less developed economies.

The pressure on industry to understand what is now expected in terms of CSR has been demonstrated in CSR conferences being held across the region. These are often well-attended and contribute significantly to information flows and capacity building. However, there are no commonly agreed guidelines, standards or benchmarks for CSR (in the APEC region or beyond) and this results in variable, often ad hoc behaviour by companies attempting to introduce CSR. Clearly, APEC economies must monitor and assess the various attempts to bring a standardised approach to CSR. For example, the EU has produced a Green Paper, which promotes expected CSR behaviour for companies, particularly in the areas of global supply chains, global corporate and investor behaviour. Potentially, this could have significant impacts beyond the EU as European companies take this measure and apply it across subsidiaries or contractors. Similarly, the ISO is currently developing an international standard to provide guidance for social responsibility with the same potential impacts. An inherent risk in not building capacity in the region to a common understanding and operating standard is the potential for a gap to emerge between global standards and local practices.

With CSR statements - many reflecting Global Reporting Initiative (GRI) guidelines- fast becoming a standard feature of annual business reporting (a trend that has risen dramatically in the last 2 years), APEC project analysis highlights the leading role taken by globally-orientated companies and industries in creating a dialogue around their CSR activities.

Scope of CSR

Inevitably, the project work reported here confronted the thorny issue of the scope of CSR. This is a multi-faceted concept which is producing many definitions. Having said this, the key elements that make up CSR may include:

- Corporate governance
- Human resource management
- Regulatory compliance
- Environmental stewardship
- Community outreach and investment
- Human rights

Similarly, there is broad agreement that CSR encompasses more than traditional philanthropic activities. In its most developed form, CSR is a core strategic function in the enterprise, consistent with the mission of the organisation, and aligned with the concept of sustainable development, positive competitive outcomes, and an equitable sharing of resources across society.

Common Themes from the Economy Papers

A number of themes emerged from the 14 economy papers, which are summarized here. There are some clear similarities in the understanding and practice of CSR across all the economies. At the same time there are a number of differences in experience, particularly between the developed and developing economies.

Similarities across all Economy Papers

There is a common basic understanding of the key elements of the CSR concept among key stakeholders, including business executives, government officials and the NGO community across the 14 economies. Nevertheless, the specific context—in particular the degree of integration into the global economy and the overall level of development—profoundly influence how this plays out. The origins and conceptualization of CSR is rooted in the historical and cultural traditions of each economy, and is deeply influenced by ethical concepts and religious practice.

There is a common understanding that CSR is gradually moving from its historical focus on business philanthropy to a broader set of activities that engage business with the full range of its stakeholders and integrate the practice of CSR into the core strategy of the organization. For this transformation to occur to its full potential there must be a clear business case made articulating the benefits of CSR, and there must be buy-in to the concept by top management. The experience in all economies is that this is difficult in practice to achieve, in part because the practical tools to make CSR operational and to measure its benefits remain underdeveloped. Nevertheless, in most economies efforts at measurement and reporting are growing rapidly, in the belief that formal monitoring and evaluation of outcomes will enhance the credibility of CSR and make it easier to substantiate.

Despite its strong roots in the traditions of each economy, CSR has also evolved in response to profound external forces, including meeting legal and regulatory obligations and responding to the elite [the opinion leaders] and broader public opinions that demand higher standards of accountability. The general strengthening of environmental practices has been a fundamental driver of CSR in most economies. Another external driver has been the need to assure appropriate labour standards throughout the supply chain. The latter creates a strong demand to integrate suppliers into the overall management of CSR, but in most economies this has proven to be challenging, as doing so involves fundamental changes to management practices in smaller companies including strengthening of managerial capacities within the SME sector. In order to do so, larger companies are increasingly turning to partnerships with other stakeholders including both governments and non-government organizations (NGOs).

Patterns within the Developed Economies

Despite these overall similarities there were some notable differences between the experiences of the developed APEC member economies examined and those of the developing economies. The developed economy papers tended to place great emphasis on the importance of environmental stewardship and the strengthening of environmental management practices, which have played a central role in the evolution of the understanding and practice of CSR. A strong and active civil society has also provided a major impetus to CSR in the developed economies, though there was striking variation among individual economies. Similarly, the management of supply chains, including links to production in developing economies, was an important driver of CSR, often in response to well-articulated consumer concerns or activism. Developed economies also tend to have strong traditions of community outreach including corporate community investment that in both concept and practice extends beyond pure charity or philanthropy. In particular, companies are increasingly engaged in strategic partnership with stakeholders within the communities in which they operate for mutual benefit.

For the developed economies the major challenges related to CSR tended to focus on the appropriate responses to globalization, identification and addressing of gaps in CSR practices, the development of common standards of good practice throughout the supply chain, and in general assuring exemplary corporate behaviour world wide.

Patterns within Developing Economies

For their part, the developing economy papers tended to emphasize the role that multinational enterprises played in importing good CSR practices, which were then emulated by the local corporate community. Going beyond compliance with local laws to apply global standards was typically a critical initial step. Adopting good environmental management practices and engaging in community outreach were also identified as important components supporting the transfer of good practice.

Thus, consistent with the experience articulated in the developed economy papers, key drivers for CSR at the local level in developing economies were the requirements of the global marketplace and their supply chains. All mentioned the impact that CSR is having on the local partners of global corporations. The strong incentives for exporters to adopt appropriate practices to access markets or to attract overseas investment were noted. Export-oriented industries are reacting to heightened performance expectations on factors such as human rights, labour practices, environmental practices, and food safety by embracing the practice of CSR.

For the most part developing economies have weaker regulatory frameworks, and more limited capacity to enforce legislation than their developed economy counterparts. In this context, global protocols have the potential to be of great influence as a way to overcome local weakness, and at the same time to promote the capacity of local businesses to compete in global markets.

At the local level, the challenges facing developing economies relate to their ability to raise awareness of CSR, to build capacity within existing institutions that can drive the adoption of CSR, to make the case to the local business community to adopt CSR, and to transfer competencies to individual companies.

Implications for future APEC workplan

Careful analysis of the economy case studies suggest that there are a number of common challenges and opportunities, which confront the implementation and extent of CSR in the APEC region. While these issues are global in scope, and consequently extend beyond the region, there are unique areas in which APEC can add value to the global understanding of CSR.

Certain themes consistently appeared in the economy case studies, as follows:

1. There is a need to articulate a solid business case for CSR, backed up by empirical evidence of positive outcomes. Even within the fourteen papers prepared for this project, most of the examples cited of good CSR practice were of a philanthropic nature. More work is required to demonstrate that CSR is a “good investment”.
2. There is a need to document more completely what exists in the region in order to facilitate the sharing of good practices, tools, capacities, and competencies.
3. There is a need to invest in an on going monitoring of trends in the practice of CSR in the region in order to facilitate the early adoption of good practices.
4. There is a need to review global developments in CSR in particular the development of global standards (for example, the current initiatives by the ISO) in order to understand their potential impact on the Asia-Pacific region. There is a need for raising awareness and building capacity, starting with existing initiatives and institutions.

In taking the analysis to the next level, a number of other more specific themes were identified, as follows:

- Stakeholders-- structures of engagement
- Legislation and compliance
- International Guidelines
- Consumer Pressure
- CSR Intermediaries (NGOs, Government, etc..)
- CSR Governance
- CSR Reporting (sustainability)
- Supply Chain
- Business case
- Globalisation
- SMEs
- Existing Good Practise

These themes naturally grouped under the following headings:

1. *Stakeholder engagement – the structures of engagement (politics)*
 - Consumer Pressure
 - CSR Intermediaries (NGOs, Government, media, academic, etc..)
2. *Institutional setting*
 - Legislation and Compliance
 - International Guidelines
 - CSR Governance

3. *Emerging global business practices*

- CSR Reporting (sustainability)
- Supply Chain (Integrated global production and distribution systems)
- Business case
- SMEs
- Existing Good Practise

What this means for APEC? What APEC can do?

It is the view of the experts in assessing these factors in terms of their significance for APEC that the future work for APEC would be best focus on the Supply Chain dimension. This is because:

1. APEC is at the centre of the global production systems development
2. International global production is the principal point of tension in the global CSR debate
3. Global supply chains provide a concrete focus for addressing many of the generic issues in CSR, such the building the business case.

CSR can be a facilitator of improved trade performance, or, if implemented poorly or not at all, it could adversely affect trade performance.