CREATING BUSINESS AND SOCIAL VALUE: THE ASIAN WAY TO INTEGRATE CSR INTO BUSINESS STRATEGIES
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CHAPTER I
CORPORATE SOCIAL RESPONSIBILITY
AND BUSINESS SUSTAINABILITY

1. Business and society in an interdependent world

“For us in business, I can see only one sure course to follow. Call it common sense, call it policy, call it anything you like. To my mind, industry must aim for, exist for and everlastingly operate for the good of the community. The community cannot ride one track and business another. The two are inseparable, interactive and interdependent.”

Cleo F. Craig
President, AT&T, 1951-1956

In September 1970, Nobel laureate economist Milton Friedman ignited a serious controversy with his New York Times article “The Social Responsibility of Business is to Increase its Profits.”


Businesses are crucial members of society, in fact, many are also significant social institutions. The decisions they make and the actions they take reverberate throughout society. Society depends on businesses in their provision of jobs, investment, goods and services produced, and development of new technologies. Thus, business has become a profound driver of employment, investment and wealth creation within society. In addition, business may also impact society beyond its obvious economic influence. Consider the case of Nestlé’s experience with the milk business in India. In 1962, Nestlé’s received permission from the Indian government to build a dairy in the northern district of Moga. The region suffered from severe poverty; people were without electricity, transportation, telephones, and medical care. Sixty per cent of calves died when they were born, and a farmer generally owned less than five acres of infertile soil. Since the Nestlé value chain depended on establishing local sources of milk from a large, diversified base of small farmers, it had to build refrigerated diaries as collection points for milk in each town.

Transportation routes were developed for milk collection. Medicine and nutritional supplements were provided for sick animals and farmers. Monthly agricultural training sessions were held for local farmers. With financing and technical assistance from Nestlé, farmers began to improve irrigation, which not only helped to feed cows but also increased crop yields. Today, Moga has a significantly higher standard of living than other communities in the surrounding region. Ninety per cent of the homes have electricity, and most have telephones. All villages have primary schools and many have secondary schools. Moga has five times the number of doctors as neighbouring regions. It is difficult to deny the positive social impact of Nestlé’s business operations in Moga, where mutual benefits were created for both the company and the society.

Conversely, misconduct by business can lead to tragedy for society. Enron was one of the world’s leading electricity, natural gas, pulp and paper, and communications companies, claiming revenues of nearly US$101 billion in 2000. It employed approximately 22,000 staff. Fortune magazine had named Enron “America’s Most Innovative Company” for six consecutive years from 1996 to 2001. Unfortunately, at the end of 2001, it was revealed that Enron’s financial situation was sustained in large part by a complex and well-planned system of accounting fraud. A series of revelations pointing to irregular accounting procedures bordering on fraud perpetrated throughout the 1990s involving Enron and its accounting firm Arthur Andersen. Enron ultimately filed for bankruptcy in December 2001. In addition, the scandal led to the dissolution of Arthur Andersen, which at the time was one of the world’s top accounting firms. The firm was found guilty of obstruction of justice in 2002 for destroying documents related to the Enron audit and was forced to stop auditing public companies. Social consequences of the bankruptcy were catastrophic. Enron employees lost their jobs and nearly all of their retirement savings, with many being left with nothing except their social security funds. Arthur Andersen sold most of its American operations to KPMG, Deloitte & Touche, Ernst & Young and Grant Thornton LLP. From a high of 28,000 employees in the United States and 85,000 worldwide, the firm is now down to around 200, primarily based in Chicago. This case clearly illustrates that responsible business is a very necessary condition for sustained social progress.

By the same token, no business operates in a vacuum. It interacts with a variety of societal forces such as employees, customers, communities, business partners, investors, governments, media, universities, and many more. Companies depend on support and resources from these groups throughout society. They supply business with labour, access to natural resources, revenue generation when they purchase products and/or services produced by the business, along with a host of other types of support. For example, education, healthcare and equal opportunity are essential to a productive workforce. Efficient utilization of land, water, energy and other natural resources makes business more productive. Good government and rule of law, and property rights are essential for efficiency and innovation. Ultimately, a healthy society leads to expanding demand for business, as

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more human needs are met and aspirations grow. Without positive support from society, it would be very difficult for businesses to operate smoothly or even survive. Any business that pursues its ends at the expense of the society in which it operates will find its success to be ultimately temporary.

Many companies become aware of this only after public pressure in response to actions they had taken but not previously been aware of. In the 1990s, Nike faced an extensive consumer boycott after the *New York Times* and other media outlets uncovered abusive child labour practices at some of its suppliers in Indonesia, Pakistan and Cambodia. In 2001, Nike was exposed by a BBC documentary as having employed child labour and poor working conditions in a Cambodian factory contracted by Nike. Nike finally pledged to raise the minimum age for hiring new workers at shoe factories to 18 and the minimum for new workers at other plants to 16, in countries where it is common for 14-year-olds to hold such jobs. However, it was too late as its reputation had been seriously damaged globally already. A global boycott campaign was raised against the company and Nike was forced to invest a large sum of money in public communication and brand recovery to regain its competitive position.

Another example is Shell Oil’s decision to sink the *Brent Spar*, an obsolete oil rig, in the North Sea in 1995. Although the plan was approved by the authorities concerned, the decision led to Greenpeace protests and international headlines highlighting that the plan would severely and negatively impact the environment. Greenpeace organized a worldwide, high-profile media campaign that influenced public opinion against Shell’s plan. The call for a boycott of Shell products and Shell service stations was being heeded across much of continental northern Europe, damaging Shell’s profitability as well as brand image. Protesters in Germany threatened to damage 200 Shell service stations. German Chancellor Helmut Kohl even protested to the British Prime Minister, John Major, at a G7 conference in Halifax, Nova Scotia. In the face of public and political opposition in northern Europe, accompanied by falling sales and a drop in share price, Shell ultimately decided to abandon its plans to dispose of the *Brent Spar* at sea. Shell’s reputation was seriously damaged by the events that unfolded, as the demolition plan resulted in a myriad of costs on the company’s goodwill. In the end, it took Shell many years to recover the public trust.

As these examples clearly illustrate, a great outcome for good businesses is often achieved when there is an improvement in the quality of life and standard of living for people where businesses operate. Business has the power to transform society and in the process, to make a profit. At the same time, business may cause society to suffer greatly from its poor conduct. Society is aware of this reality, thus many social groups have begun to closely monitor business operations and are ready to take action against any business they consider a “threat to society” in whatever aspect. As society also has the power to generate a positive or negative impact on business, society can punish businesses

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that cause harm to society. Therefore, no party can live alone in separation, business depends on society and *vice versa*. Particularly in our increasingly interconnected world, where the forces of globalization and technological innovation are bringing massive change, the linkages between business and society will only continue to grow stronger, tighter and even more vital to both corporate success and social prosperity. Businesses can sustain their growth only if society is generally satisfied with their overall contribution to societal well-being. Michael E. Porter, a Harvard strategy guru, believes there is a “symbiotic relationship” between social progress and competitive advancement. This relationship “implies that both business decisions and social policies must follow the principle of *shared value*.”

Business and society are inseparable and interdependent. The best business leaders know this truth and act with vision, courage and passion to create real and lasting contributions to society. This becomes a way for companies to advance social progress while also making a profit, and ultimately becomes a way for many businesses to effectively sustain themselves over the long-term. It suggests that corporate social responsibility (CSR), therefore, has become an essential part of any successful company’s business strategy.

### 2. Global demands for responsible business

Business is presently facing an uncertain competitive environment with multiple demands and pressures from customers and numerous stakeholders. Many of these demands and pressures are converging into one theme: corporate responsibility.

#### 2.1 Rise in stakeholder consciousness

Increasingly, corporations are motivated to become more socially responsible because their most important stakeholders (customers, employees, shareholders and investors, community, etc.) expect business to understand and address relevant social and community issues. Without appropriate actions in response to these demands, stakeholders may react negatively to business. Taking suitable actions, thus, often leads to a positive contribution to business success.

Understanding what causes are important to employees is often a priority because of the many interrelated business benefits that can be derived from increased employee engagement in terms of more loyalty, improved recruitment, increased retention, higher productivity, and so on. Shareholders and investors (particularly institutional investors) themselves, through socially responsible investing (SRI) are exerting pressure on corporations to behave responsibly and ethically. They are not only concerned for their financial returns but also for the practices that ensure business continuity. The marketplace is developing both social and environmental information and criteria to supplement the traditional financial

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criteria used to make investment decisions. Market indexes and professional firms now provide information for mutual funds, private equity funds, venture capital funds, commercial banks and other financial market investors about a wide range of corporate characteristics, including governance, human resource management, health and safety, environmental protection and community development. Some examples of SRI indexes are the Dow Jones Sustainability Index in the United States, the FTSE4GOOD 100 Index in the United Kingdom, the Jantzi Social Index in Canada, Innovest, the Calvert Social Index, and the KLD Domini 400 Index.

Key external stakeholders including consumers, regulators, community organizations, academics, and the media have also injected their social concerns into business operations. Consumers are showing increased interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues. Non-governmental organizations are also taking an increased role, leveraging the power of the media to increase their scrutiny and collective activism around corporate behaviour. The action of Greenpeace on the Shell’s Brent Spar was such a case. Through education and dialogue, academia is raising awareness and preparing future generations to hold businesses responsible for their actions. Advances in information and communication technologies, such as the internet and mobile phones, assist external stakeholders in more effectively tracking and discussing corporate activities, along with quickly assessing and profiling business practices they view as either problematic or exemplary. A sound CSR approach can ensure better business responsiveness to these diverse stakeholder groups.

2.2 Ethics and moral concerns

There are three currents of ethics and moral concerns that have led to a high demand for responsible business. Firstly, a number of serious and high-profile breaches of corporate ethics resulting in damage to employees, shareholders, communities, and the environment—as well as share price—have contributed to elevated public mistrust of corporations. The case of Enron, explained previously, is a clear illustration of this point. Therefore, demand for companies that are ethically governed is up. Stakeholders demand good corporate governance principles to be exercised thoroughly in any business, including things like honesty, trust and integrity, openness, responsibility and accountability, mutual respect, and commitment to the organization. In particular, ethical and responsible decision making has become a major concern for investors and shareholders for reasons not only related to a sound business operation, but also for risk management. Some companies have developed a code of conduct for their directors and executives that promotes ethical and responsible decision-making. Shareholders also demand that companies clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. Procedures to independently verify and safeguard the integrity of a company’s financial reporting have become essential parts of responsible business. All in all, the most direct rationale is to reduce the likelihood of being fined and avoid any damage to their reputations for breaching laws or moral norms. A CSR approach
can help improve corporate governance, transparency, accountability and ethical procedure of the business.

Secondly, ethical consumerism\(^7\) is the intentional movement encouraging the purchase of products and services that the customer considers to be made ethically. This may mean with minimal harm to or exploitation of people, animals and/or the natural environment. The rise in ethical consumerism and “green” brands that identify themselves as ethical, has led to a rise in ethic-based decisions in the mass market, enabled by increased understanding and information about socially-concerned businesses practices. Ethical consumerism is practiced through four means:

- **Positive Buying:** Favouring particular ethical products, be they fair trade, cruelty free, organic, recycled, re-used, or produced locally;
- **Negative Purchasing:** Avoiding products that consumers disapprove of, such as battery eggs\(^8\) or gas-guzzling cars;
- **Company-Based Purchasing:** Targeting a business as a whole and avoiding all the products made by one company. For example, a boycott of Nestlé products was launched in 1977 in a bid to get the company to change the way it marketed its baby milk formula around the world;
- **Fully-Screened Approach:** Looking both at companies and at products and evaluating which product is the most ethical overall. Ethical Consumer, the United Kingdom’s leading alternative consumer organization, collects and categorizes information from more than 30,000 companies according to their performance in five main areas—the environment, human rights, animals rights, politics, and product sustainability—to determine their *Ethiscore* which is then used to recommend the most ethical, “fully-screened” products.

A study of consumer beliefs in five developed countries in Europe about the ethics of large companies concluded that approximately one third of respondents reported they would pay higher prices for ethical brands, though perception of various companies’ ethical or unethical status varied considerably from country to country.\(^9\) These results are consistent with a survey conducted by the Global Market Insite\(^{10}\) which gauged the opinions of more than 15,000 consumers in the United States and 16 other countries about socially conscious business practices. It found that 42 per cent of all Americans are willing to spend more for products branded as organic, environmentally friendly, or fair trade, whereas a large majority of consumers in China (91 per cent) and India (71 per cent) will pay more for socially conscious business practices.


\(^8\) See http://www.chickenout.ca/battery_egg_farms.php and http://www.hsus.org/farm/camp/nbe/


responsible products. American consumers between the ages of 18-29 were more likely to spend more on organic, environmentally preferable or fair trade products than other age groups. While consumers in India, Canada, Australia, Germany, China and Japan selected environmentally friendly practices like recycling or using biodegradable products as their top factor for determining if a business is socially responsible, consumers in the United States selected firms that supported community activities such as sponsorships, grants, or employee volunteer programmes. Other countries, including France, Denmark, and Italy selected the use of child labour as the main factor in making them think a corporation is socially irresponsible. The results of these two surveys validate the notion that consumers expect companies to have sustainable policies. It therefore makes good business sense for companies to develop such policies, as they can expect to subsequently be “rewarded” or “punished” by their consumers if they fail to embrace socially responsible practices.

Finally, in addition, advocates of ethical companies believe that, in general, the goal of any economic actor should not be limited to only economic gain, but should also aim to further the general social welfare. In advanced economies, the purpose of business has been called to extend beyond the maximization of efficiency and profit. Advocates believe that businesses, without exception, have an obligation to contribute and give back to the community. In this sense, society has increasingly begun to expect businesses to have an obligation to the society in which they are located, to the people they employ, and customers they serve, beyond their traditional single bottom-line and narrow shareholder concerns. Corporates are seen more and more as ‘citizens’ in society — ‘citizens’ that hold both rights and responsibilities towards the local community and society in which they reside. As citizens, corporates can contribute to the common good in different ways, such as creating wealth and providing goods and services in an efficient and fair way, while at the same time respecting the dignity and the inalienable and fundamental rights of the individual. Furthermore, corporates can contribute to the social well-being and a harmonic way of living together in just, peaceful and friendly conditions, both currently and in the future, by effectively integrating CSR into their practice.

2.3 Cries for sustainable development

Sustainable development is defined by the United Nations as the development that “meets the needs of the present without compromising the ability of future generations to meet their own needs”.¹¹ A number of studies have found that humankind is consuming natural resources at a much faster rate than they are being replaced. In many cases, we are doing much more than just consuming, we are destroying nature. If this continues, future generations will not have the resources they need for their development. In this sense, much of the current development is unsustainable. Other issues related to sustainable development include the need for greater attention to poverty alleviation and respect for human and community rights. All of these concerns have led to an increased demand for

sustainable practices by individuals, corporations, and communities. The rise in popularity of ethical consumerism over the last two decades can be linked to this concern as well. Consumers are becoming increasingly aware of the environmental and social implications of their day-to-day consumer decisions and are beginning to make purchasing decisions related to their environmental and social concerns. The boycotts against Nike and Shell explained in the first section point to this issue. Although this practice is far from consistent or universal, the concerns for contribution to sustainable development can serve to direct businesses to attend to issues that may not be directly related to their short-term profit generation but would be strongly influential their long-term success. CSR serves as an entry point for businesses to understand sustainable development issues and respond to them in a more effective manner though their business strategy. Recently, Wal-Mart launched Sustainability 360, a company-wide programme that aims to engage Wal-Mart associates, suppliers, communities and customers to the sustainability agenda. By requiring suppliers to reduce product packaging by five per cent by 2013, Wal-Mart expects to realize savings equal to removing 213,000 trucks from the road and saving 324,000 tons of coal and 67 million gallons of diesel fuel per year.

2.4 Pressures of global market forces

With attendant focus on cross-border trade and global supply chains, corporations pursuing growth within the global market inevitably encounter new challenges that can limit their growth and potential profits if they lack competency in handling these challenges. Non-tariff barriers, environmental restrictions, food standards, safety and varying understandings of labour exploitation and hygienic risks are just some of the conditions which challenge businesses in the global marketplace. These conditions are imposed as consumers increasingly demand high standards of product quality. They can be especially important for export-oriented businesses in emerging economies to successfully enter markets in more developed countries. Since all such issues are directly related to various components of socially responsible practices, CSR has increasingly been identified as a top concern for international businesses. Moreover, such concerns place particular pressure on multinational businesses to examine not only their own internal practices, but also those of their entire supply chain. As explained previously, Nike’s mistake in failing to notice the misconduct of its suppliers in Cambodia, Indonesia and Pakistan led to serious damage to its reputation around the world. These global market conditions have introduced problems for which business was previously unprepared. Businesses are pressed to comply with these market standards and demands. There is very little room for avoidance if they still want to remain competitive globally.

2.5 International instruments

Intergovernmental bodies, such as the United Nations, the Organisation for Economic Co-operation and Development (OECD), the International Labour Organization (ILO), and

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the International Organization for Standardization (ISO), have developed various compacts, declarations, guidelines, principles and other standards that outline norms for what they consider to be acceptable business conduct. Agenda 21, United Nations Global Compact, OECD Guidelines for Multinational Enterprises, ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and ISO 26000 are some examples of these types of initiatives. They involve components aimed to orient business practices to be more socially concerned regarding human rights, environmental preservation, corporate governance, transparency and anti-corruption, and so on. Some of these initiatives, or components thereof, are deployed at the national level once governments voluntarily decide to adopt them into the national regulatory framework. As cross-country collaboration is increasingly significant, some initiatives have been integrated into international cooperation frameworks in which state members are obligated to comply and, as a result, domestic laws and regulations need to be amended to be consistent with international standards. The end result is that domestic businesses will eventually orient their operations and practices in more social-friendly manners.

2.6 Crises and consequences

Often attention to CSR precipitates after a crisis. One of the most active stands against environmental mismanagement is the Coalition for Environmentally Responsible Economies (CERES) Principles, a ten-point code of corporate environmental conduct which was publicly endorsed by CERES member companies, and resulted from the Exxon Valdez oil spill in Alaska in 1989. Approximately 11 million gallons, or the equivalent of 38,800 metric tons, were spilled. Around 1,300 miles of shoreline were contaminated, with 200 miles being heavily or moderately damaged, and 1,100 miles lightly or very lightly damaged. The spill region contained more than 9,000 miles of shoreline, and clean-up took more than four summers and cost US$2.1 billion. Even with this enormous investment in clean-up, not all affected beaches were cleaned, and some remain contaminated with oil to this day.

Other examples include an incident with Mattel, the world’s largest toy company, in 2007. Potential hazards from parts of the toys coloured with lead-based paint led to a recall of 19 million toy products globally and caused the company to initiate new risk management and quality control processes. As a result, a Mattel toy boycott was organized in both the United States and Europe. The world federation of consumer organizations, Consumers International (CI), announced the winners of the International Bad Product Awards be presented to Mattel. Fortune magazine rated the recall of Mattel’s products as one of the ‘Dumbest Moments’ in business for 2007. This crisis effectively ruined Mattel’s sixty-year reputation in just a few short months because Mattel’s main supplier, Lee Der, had subcontracted out the painting to another Chinese company. While the subcontractor was supposed to use paint supplied by Lee Der; it instead used paint that contained potentially poisonous lead. Following the incident, Mattel appointed Geoff Massingberd as

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Vice President of Corporate Responsibility to lead development and implementation of programmes related to business integrity.

Another more recent crisis was the milk scandal in 2008. Several companies in China were implicated in a scandal involving milk and infant formula which had been contaminated with melamine, leading to kidney stones and other renal failure, especially in young children. By 22 September 2008, nearly 300,000 people had become ill, with more than 12,800 hospitalizations and four infant deaths. The consequences of the scandal extensively went beyond China. Cases were diagnosed in Hong Kong, China; Macau, China; and Taiwan Province of China as result of imported products. Tokyo-headquartered Lotte Group recalled its Koala’s March cookies in Hong Kong, China and Macau, China because of contamination. British confectionery group Cadbury withdrew all of its 11 chocolate products made in its three Beijing factories, on suspicion of melamine contamination. Unilever recalled its Lipton milk tea powder after the company’s internal checks found traces of melamine in the Chinese milk powder used as an ingredient. Heinz recalled cases of baby cereal in Hong Kong, China after discovering they contained melamine. As a result, Nestlé sent 20 specialists from Switzerland to five of its Chinese plants to strengthen chemical testing and later opened a US$10.2 million Beijing Research and Development Centre to serve as a base and reference in food safety for Nestlé in Greater China.

The issue raised concerns about the food safety of Chinese products. It damaged the reputation of and consumer trust in China’s food exports, with at least 25 countries stopping all imports of mainland Chinese dairy products. The EU announced a ban on imports of baby food containing Chinese milk. The World Health Organization (WHO) referred to the incident as one of the largest food safety events it has had to deal with in recent years, and that the crisis of confidence among Chinese consumers would be hard to overcome. Decline in consumer confidence resulting from the contaminated milk has lessened demand for dairy products, causing hardship to more than 2 million Chinese farmers who have nowhere to sell their milk. The scale of the problem proved that it was clearly not an isolated incident, but rather, a large-scale intentional crisis.

This section highlights key global demands pressing for more responsible business practices. Some of the pressures have become inevitable options for business to embark on, with CSR providing a comprehensive approach to help businesses in managing the multiple challenges and pressures. CSR has become a means of matching corporate operations with stakeholder values and demands. An effective CSR policy will bring together all aspects of operations within a corporation as a way of adequately considering

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the needs of all constituent groups. The actions corporations take today to incorporate CSR throughout their organizations represent a real point of differentiation and competitive market advantage on which future success can hinge. The next section will elaborate on key business advantages corporations gain from undertaking CSR practices.

3. CSR and business advantages

There are clear and identifiable benefits associated with CSR when it comes to adding value to human capital, corporate identity and products. The scale and nature of the benefits of CSR for a company may vary depending on the nature of the enterprise and the CSR measures it undertakes. Although the business advantages gained from CSR are often difficult to quantify in an exact way, there is a large body literature available which highlights key business advantages of CSR and urges businesses to adopt socially-concerned measures beyond financial gains.

3.1 Brand and reputation advantage

In competitive markets, companies strive for a unique selling proposition that can separate them from their competitors in the minds of customers. Ultimately the value of a company depends largely on how much faith customers have in the business. That faith is fostered by an ineffable and scarce element: reputation. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency that customers perceive the company and its products to have. For many of the brand name companies, their brand is the core and backbone of their business.

CSR can play a role in building good brand perception and company reputation based on distinctive ethical values. Several famous brands, e.g. the Body Shop, Whole Foods Market, and American Apparel, have built their enterprises on ethical values such as members’ ownership, human dignity, ecologically sustainable operations and socially responsible practices. They have been able to differentiate their brands by making a socially-responsible commitment which also shows their positive response to the global demand for sustainable development. Through the reputation development of delivering sustainable products and services, they have attracted socially, environmentally conscious customers. This approach, sometimes called “green marketing”, has been employed by companies as a marketing strategy, like when Home Depot developed a line of furniture produced entirely from sustainably harvested wood. In 2000, the green market was estimated to be 10 to 12 per cent of the United States consumers.\(^{17}\) The overall ethical market in the United Kingdom, measured by market size and growth of a basket of ethical products and services, was reported to be worth £35.5 billion in 2007, up 15 per cent from £31 billion in 2006.\(^{18}\)


Organizations that perform well with regard to CSR practices can build their reputation, whereas those that perform poorly can damage brand and company value when malpractices are exposed. The cases of Nike and Shell mentioned earlier emphasize and illustrate this. The loss of a positive image and reputation impacting brands is simply too high to ignore. This is particularly important for organizations with high-value retail brands, which are often the focus of media, activist and consumer pressure. Good CSR practices can be part of a process to help companies avoid being attacked from media and other opponents. Even for companies that do not have direct retail exposure through brands, their reputation as a supply chain partner for addressing CSR issues can make a difference when the larger business opportunity is positively realized.

Many companies in the supply chain can also benefit from developing a positive image and reputation. As large buyers move to consolidating supply chains, smaller companies need to differentiate themselves to gain and retain business while competing with larger counterparts. Small and medium-sized enterprises (SMEs) can benefit from improving their image and reputation as some large companies are interested in promoting business within the small business sector and are looking to identify smaller enterprises that have established a reputation for good quality and well priced products produced in a way that is seen as socially responsible. Developing a brand and good reputation which is seen as socially and environmentally responsible is therefore highly beneficial for businesses, either large or SMEs, in a global and competitive world.

### 3.2 Human resources advantage

The increased pressure on growing competition and globalization have introduced businesses to pressure to increase productivity, streamline operations, contain costs and deliver maximum shareholder value and profit. Many companies have come to realize the importance of attracting and retaining “the best and the brightest”, highly skilled, quality employees as a necessary condition to accomplish these challenges. Furthermore, the key to firm success is now associated with a firm’s ability to create, manage, and transfer “knowledge assets”, which also stresses the importance of quality employees as a key to a firm’s competitive advantage. A firm will be successful in this endeavour if it has a quality workforce which takes advantage of and manages such knowledge. The ability of firms to succeed in the future is now often linked to how well a firm can capture value from these knowledge assets. Competent human resources thus have become a key to sustained corporate success. There is growing evidence that a company’s CSR practices play an increasingly important role in improving recruitment and retention of quality employees, particularly within the competitive market of technical specialists.

A systematic study conducted with junior- and senior-level students in the United States found that firms with more CSR practices were perceived as more attractive employers than firms lower in CSR, and that prospective applicants’ job pursuit, probability to interview, 

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and probability to accept a job offer are positively associated with a firm’s CSR. Results of an employee survey by Good Search indicate that 44 per cent of employees want to work for a company that is environmentally responsible, that has stated CSR policies (38 per cent), that makes socially responsible products (37 per cent), and that conducts Ethical Sourcing and Supply Chain (35 per cent). A recent survey conducted by British Telecom (BT) stated that more than one-third of respondents indicated that working for a caring and responsible employer was more important than the salary they earned and nearly half would turn away from an employer that lacked good corporate social responsibility policies. Alison Garner, head of global CSR for BT, said that, “young professionals are increasingly looking at corporate social responsibility when considering which companies and brands they might work for”. Among their most recent graduate recruits, 30 per cent identified BT’s social responsibility as a reason for them to join BT – up from previous years. This is something many would consider to be common sense: employees will not choose to work for companies with factories that are dirty and unsafe or where poor wages are paid late. Therefore, good CSR practices tend to increase a company’s ability to attract quality workers.

Employing quality staff cannot guarantee business success, however, if a company is unable to keep them. Employee turnover harms a business as it creates huge amounts of uncertainty over production schedules and the ability to meet orders. Losing qualify staff means a business has to pay costs associated with recruitment, training and lost productivity whilst the worker is new to the job and learning the required skills. Good internal CSR practices (such as fair employment practices, diversity initiatives, giving employees a voice, bonus schemes, and the like) can increase morale, reduce absenteeism, increase the commitment of workers to the organization and increase productivity; all of these results subsequently increase retention. Some research has concluded that there


is evidence to suggest that good CSR practices actually reduce employee turnover.\textsuperscript{26} Human resource benefits can be quite considerable when one considers the costs of training new staff and with recruitment costs in labour markets becoming increasingly high. A company can improve employee morale and loyalty through CSR practices, programmes and activities. This can be achieved through establishing pride in the company’s products and practices, or introducing improved human resources practices such as “family-friendly” policies, fair-pay, health and safety systems. CSR can also help to improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering.

### 3.3 Cost advantage

The cost advantage of CSR appears to be related to two aspects: business operations and human resources management.

There are hundreds of examples which show that cost reductions can be achieved through good CSR practices.\textsuperscript{27} Many of these reductions are related to the environmental management of operations. Most companies that reduce pollution and hazardous waste, reuse or recycle materials, and operate with greater energy efficiency and more efficient use of water can reap significant cost savings.\textsuperscript{28} DuPont, for example, has saved over US$2 billion from reductions in energy use from 1990 to 2005. McDonald’s changed the materials used to wrap its food and reduced its solid waste by 30 per cent.

Cost advantage is achieved specifically from improved efficiencies as identified through a systematic approach to management that includes continuous improvement. For instance, in assessing the environmental and energy aspects of an operation, a company can reveal opportunities for turning waste streams into revenue streams (wood chips into particle board, for example), as well as identify areas for system-wide reductions in energy use, and costs. Herman Miller Inc.,\textsuperscript{29} an office furniture company in the United States, goes to great lengths to avoid wasting material. It sells fabric scraps to the auto industry for use as car linings; leather trim to luggage makers; vinyl to the supplier to be re-extruded into new edging; and burnable solids are used in a specialized boiler that generates all the heating and cooling for the company’s main complex in Zeeland, Michigan. Herman Miller Inc. ultimately makes money from “waste” that it previously had to pay to dispose of.

From the human resource management aspect, the benefits of CSR can be largely considerable when recruitment costs and costs of training new staff are considered. Increase in staff retention would indeed reduce all of these costs. CSR contributes to staff retention

\textsuperscript{26} ESCAP (2005).


\textsuperscript{28} Lawrence, AnneT., Weber, James and Post, James E. (2005).

\textsuperscript{29} See http://www.hermanmiller.com/
as explained in the former section. Some SMEs use good CSR practices to develop a sense of family within the organization, as opposed to a workforce divided into management and workers. The SME sector may be well suited to cooperative forms of ownership that also tends to increase retention rates and boosts loyalty and productivity. In addition, SMEs in the supply chain can also benefit from some of the direct costs savings though good environmental management as discussed previously.

### 3.4 Risk management

Although globalization offers many opportunities to companies in terms of market expansion and extensive supply chains, it also poses novel sources of business risks. Network-based operating models of business across different countries, regulatory regimes and cultures highlight the growing importance of the extended enterprises by enhancing the efficiency of companies while improving their global competitive position. However, network-based models have resulted in much more complex relationships, both within the corporate domains and between companies and their stakeholders, and produce some business risks as consequences. Thus managing risk must be a central part of any corporate strategy.

Global supply chains often stretch across multiple companies, suppliers and wide geographic areas. As the numbers of connection grows, the interdependent relationship among participants along the chains also grows. A change in any one partner can ripple throughout the value chain and cause positive or negative consequences to a company. Malpractice by one supplier can create unanticipated harms to a company’s reputation and brand image. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or labour rights transgression. Misconduct by Nike’s suppliers in using child labour, as discussed earlier, is a good example. Business therefore needs a tool to help them mitigate this kind of risk along its supply chains. Building a genuine culture of ‘doing the right thing’ within a corporation and its suppliers can offset this kind of risk and CSR offers a safeguard solution.

In the supply chain, engaging in CSR may also lead to continuity of buyer-supplier relationships (and perhaps strengthening the relationship in some cases), fewer audits and inspections, and less likelihood of losing contracts. This is not to say that these outcomes will flow on to all SMEs in the supply chain, but for those doing CSR it appears to be the case. Companies can stimulate smaller enterprises in their supply chain to implement a CSR approach. Some large automakers insist their suppliers be certified in environmental management systems standards. Similarly, some large apparel retailers require their suppliers to comply with worker codes and standards. A major benefit in carrying out risk reduction strategies also relates to access to finance for companies of all sizes. Where environmental and social issues are perceived a risk by the financial sector there will be hesitating in providing finance unless potential risks are identified and mitigated.

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30 ESCAP (2005).
31 Ibid.
In addition, the power of other stakeholders like communities, employees, regulators, suppliers, NGOs, and media, has been increased in the globalized age. Globalization has expanded the range and reach of corporate stakeholders by “exerting a democratizing and empowering influence worldwide.”\(^{32}\) Such groups of stakeholders can form coalitions to challenge government policy as well as corporate behaviour. Any number of stakeholders may transmit a risk to various components within a company. For instance, customers may request changes in a company’s environmental policies; employees may raise concerns about outsourcing of jobs overseas; suppliers may request coverage in a company’s safety plan; and so on. This condition introduces some “social risks” to irresponsible business.\(^{33}\) Social risk may arise from what appears to be a sound business decision. A quest for cheaper labour to drive down costs may appear to make a good business sense on the basis of garnering competitive advantage. However, a decision to employ workers in a developing country without fully abiding by national laws or adhering to international labour standards could cause a company to run afoul of labour rights watchdogs and resulting in public criticism and reputation damage. In particular to those companies with recognized brands, they are vulnerable to charges by some of these stakeholders if they are seen as violating their own self-professed standards or international community norms in such areas as human rights, labour practices or environmental preservation. Stakeholder relationship must be maintained to minimize business risks. CSR practices are an effective means to provide strategic actions for managing these risks.

CSR contributes to social risk mitigation and better risk management through two means: by providing intelligence which identifies those risks, and by offering an effective means to respond to risks with an emphasis on managing relationships with stakeholders.\(^{34}\) Stakeholder groups can provide strategic intelligence regarding the company’s risks around particular economic, social or environmental issues by giving signals, warnings, or inside information. However, the business intelligence through this channel is accessed only if good relationships and trust are established between business and stakeholders. The CSR approach aims to engage stakeholders in the business operation thus allowing good stakeholder relationships to be developed and strengthened. Gaining knowledge of social expectations from better connections with stakeholder groups, increased understanding of international standards/norms by which a company should abide, and smarter allocation of resources are all enabled though linking a CSR programme with a risk management programme. At the same time, by partnering with other social actors, including civil society groups, companies can also work to improve the contextual conditions that pose emerging risks for them in the first place.

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\(^{34}\) Kytle and Ruggie (2005).
Nike is a good example of integrating CSR into its risk management in response to its child labour crisis identified in section 1, Nike developed its first department for managing its supply chain partner’s compliance with labour standards. In 1998, Nike developed a CSR programme linked with its core business functions with plans to address the labour issue and the associated stakeholders. In 1999, CSR was integrated into one of five business performance objectives for the corporation. Interviews were conducted with some 9,000 young workers with their Indonesian suppliers about the workers’ needs. Nike supported the launch of multilateral initiatives like the Fair Labour Association, SA8000 Standards which focused on the development of compliance with labour standards. By fostering multilateral forums, Nike has developed means to effectively engage stakeholders to share information, thereby addressing the danger of ignoring larger context of stakeholder activism and recognizing CSR must be linked strategically to core business.

3.5 Innovation

CSR can also improve business advantage through innovation. Many opportunities to pioneer innovations which benefit both society and a company’s own competitiveness can emerge during the process of CSR development. Soliciting feedback from diverse stakeholders can also be a rich source of ideas for new product differentiation or process development; which can lead to better access to new markets; and ultimately result in competitive advantages. For example, a firm may become certified in environmental and social standards to become a supplier to particular retailers. Toyota’s response to concerns over automobile emissions is another example. The Toyota’s Prius, a hybrid electric/gasoline vehicle, is the first in a series of innovative car models that have produced a competitive advantage with environment benefits. The Prius was awarded the 2004 Car of the Year Award by Motor Trend magazine, the world’s number one automotive authority, which gave Toyota a unique position in customer’s minds. Urbi, a Mexican construction company, has prospered by building housing for disadvantaged buyers using novel financing vehicles such as flexible mortgage payments made through payroll deductions. Crédit Agricole, France’s largest retail banking group, has differentiated itself from competitors by offering specialized financial products related to the environment, such as financing package for energy-saving home improvements and audits to certify farms as organic. Innovation through CSR has been coined a “Strategic CSR” which Michael Porter argued that it will truly strengthen long-term competitiveness of a company.

3.6 Access to capital

Financial institutions are increasingly incorporating social and environmental criteria into their project assessments. When making decisions about where to place their money, investors are looking for indicators of effective CSR management. A business plan incorporating a good CSR approach is often seen as a proxy for good management. Based on a 2007 Report on Socially Responsible Investing (SRI) Trends in the United States, SRI is growing at a faster pace than all other investment assets under professional management. Roughly 11 per cent of assets under professional management in the United States – nearly one out of every nine dollars – were involved in SRI. SRI assets rose more than 324 per cent from US$639 billion in 1995 to US$2.71 trillion in 2007. From 2005-2007 alone, SRI assets increased more than 18 per cent while other types of professionally managed assets increased less than 3 per cent. No doubt, the trend will be growing and socially-responsible companies will gain a strong position in attracting funding.

As this section suggests, businesses must truly recognise that their corporate advantage is closely linked with how well they consider the effects of their activities on those with whom they interact. Brands and reputation are invaluable, albeit largely intangible corporate assets that must be managed as carefully as any of its production function. Firms that implement a CSR approach for more than economic reasons will gain an advantage beyond just its reputation. CSR builds human capital of a company through recruitment and retention. Costs saving, innovation and access to finance are other advantages a company may derive from CSR. Finally an integration of CSR into core business is a key strategy in aiding a company in managing economic, environmental, and social risks. The next section will briefly explain how CSR can be used as a significant strategy for business to adopt in order to achieve long-term sustainability.

4. CSR as a strategy for corporate sustainability

“Strong economic performance and good social and environmental performance are not mutually exclusive. In fact, I believe that good corporate citizenship improves our bottom line... Firms with social citizenship records and a real commitment to corporate responsibility are arguably more sustainable, better managed and, therefore, better long-term investments.”

Ed Zander, Chairman and Chief Executive Officer of Motorola, 2004


In their widely acclaimed book entitled *Built to Last: Successful Habits of Visionary Companies*,41 Jerry Porras and Jim Collins outlined an insightful blueprint for organizations based on a six-year study of the development of some of the most successful corporations. They focused their research on 18 bona fide, “visionary” companies, which included 3M, Boeing, Disney, Hewlett Packard, Motorola, IBM, Johnson & Johnson, Marriott, Merck & Co., Proctor & Gamble, Sony and Wal-Mart. A visionary company was defined as one that was a premier institution in its industry, was widely admired by businesspeople, made an imprint on the world, has stood the test of time, has had multiple product/service life cycles, and was founded before 1950 (some even before 1900). The list of visionary companies was determined based on the results of a survey of 1,000 CEOs. From 1926 through 1990 the visionary companies outperformed the general stock market by 15 times. During the six year research process, their findings contrasted with their expectation that large corporations’ successes would be linked with profits. In fact, their results showed that maximizing profits was not the dominant goal for visionary companies.

They found 17 of the 18 visionary companies were guided more by a core ideology – core values and a sense of purpose beyond just making money. One example is that of Motorola’s core ideology which is to “honourably serve the community by providing products and services of superior quality at a fair price to our customers”. A deeply held core ideology gives a company both a strong sense of identity and a thread of continuity that holds the organization together in the face of change. Core ideologies define the company’s reason for existence: who we are, what we stand for, and what we are all about. Examples of these effective core ideologies include:

- Procter & Gamble: product excellence, continuous self-improvement, honesty and respect and concern for the individual;
- Wal-Mart: provide value to customers, buck conventional wisdom, work with passion and commitment, run lean and pursue ever-higher goals;
- 3M: dedication to innovation;
- Hewlett Packard: respect for the individual staff;
- Disney: make people happy;
- Sony: elevation of the Japanese national culture and status. Being a pioneer – not following others, but doing the impossible. Respect and encourage individual ability and creativity;
- Merck & Co.: medicine is for patients not for profits. The profits follow; and,
- Marriott: to make people who are away from home feel like they are among friends and really wanted.

These cases illustrated how companies had been able to sustain their businesses on the basis of a company ideology which was not primarily focused on economic returns. Some focused on customer satisfaction, while others focused on employees, product

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development, or innovation. The research identified a key issue in the discussion of business sustainability in that a business can be sustained if it shifts its focus from profit maximization to value-creation maximization for stakeholders. Corporate sustainability can accordingly be defined as meeting the needs of a firm’s direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities and so on), without compromising its ability to meet the needs of future stakeholders. The concept of corporate sustainability has departed from orthodox management theory and lies in the realization that economic sustainability alone is not a sufficient condition for the overall sustainability of a corporation. A single-minded focus on economic sustainability can only succeed in the short-term. Social and environmental sustainability must be satisfied simultaneously to ensure a smooth continuity of business in the long-term. These three components of corporate sustainability are presented as follows.

**Economic sustainability:** A company’s operation mainly relies on fixed assets (such as buildings, land, equipment, machinery) and current capital (for instance bank accounts, merchandise, accounts receivable) to run the business. Recently, intangible assets/capital (for example knowledge, business know-how, reputation, trust) have become increasingly significant, and are no less important than their tangible counterparts. Economic sustainability requires firms to manage all types of assets in such a way so as to ensure business continuity. A company will not survive if it no longer has adequate cash flow to meet its financial commitments to suppliers and lenders. In addition, a firm that generates a return to shareholders below industry average runs a risk of being terminated as shareholders will move their money to other companies that offer a higher return. Therefore, economically sustainable companies must guarantee sufficient cash flow at all times to ensure liquidity, while producing persistent, above average returns for their shareholders.

**Environmental sustainability:** A firm’s production process requires resources. These may be natural resources, which can either be renewable (such as wood, fish, and rice) or non-renewable (such as fossil fuels, biodiversity, and quality soil). These natural resources can also take the form of ecosystems, for instance climate stabilization, water, purification, and/or reproduction of plants and animals. Economic value is derived from the consumption and utilization of national resources and the maintenance of ecosystems. If the natural resources are completely consumed, business will eventually become unsustainable. Hence, ecologically sustainable companies use only natural resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes. They do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions. In addition, they do not engage in activity that degrades ecosystems.

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44 Dyllick and Hockerts (2002).
**Social sustainability:** A company’s operation not only depends on financial and natural resources but also on social resources, namely human capital and social capital. Human capital is primarily concerned with aspects like skills, motivation and loyalty of employees and business partners. Social capital, on the other hand, includes the quality of public services, such as a good education system, infrastructure or a culture supportive of entrepreneurship. Socially sustainable companies add value to the communities within which they operate by increasing the human capital of individual partners as well as furthering the social capital of these communities. As human and social capital is concerned with the needs of different stakeholders, a company may not be able to meet the expectations of all stakeholder groups simultaneously. From this perspective, a sustainable company manages social capital in such a way that stakeholders can understand its motivations and can broadly agree with the company’s value system.45

Many executives tend to hold the misconception that their companies can further their economic sustainability by simply paying more attention to social and environmental issues, such as increasing their eco-friendly technologies or encouraging more employee contribution to community philanthropic activities. Although such an approach is an important step towards corporate sustainability, it is not enough. For a corporation to become truly sustainable, it has to effectively integrate the environmental and social dimensions of sustainability into its operations, and CSR holds high legitimacy in addressing them.

The contribution of CSR to help a company achieve its sustainability is a five-fold process. First, CSR helps set out areas that a company should focus on for the three components of corporate sustainability. For example, the United Nations Global Compact has set ten core principles of business practices in the areas human rights, labour standards, environment and anti-corruption. These areas comprehensively address natural resources, human capital, societal capital and financial sustainability, respectively.

Second, in addition to setting up areas of focus, CSR also provides a guideline of practice for business to work towards corporate sustainability. For example, Principle 7 of the United Nations Global Compact advises that business should support a precautionary approach to environmental challenges. This principle is based on the idea that it is more cost-effective for a company to take early action to ensure that irreversible environmental damage does not occur, as remediating environmental harm after it has occurred can cost much more to business and society. In additional to this guiding principle, the United Nations Global Compact further provides key steps that a company may take in the application of this approach (see details in Chapter II). With guidelines and steps being provided, a company can easily pursue a CSR route towards corporate sustainability.

Third, CSR contributes to corporate sustainability by providing moral arguments as to why socially and environmentally responsible behaviours of business should be integrated into business practice, hence ensuring the company’s legitimacy to adopt a sustainability

CSR is grounded on three fundamental theories: social justice theory, rights theory and deontological theory. Social justice proponents advocate for a fair society in which the needs of all members of society are considered, not just those with power and wealth. As a result, corporate managers need to consider how their goods can be most appropriately distributed in society. Rights theory is concerned with the meaning of rights, including basic human rights and property rights. One argument in rights theory is that property rights should not override human rights. From a CSR perspective, this would mean that while shareholders of a corporation have certain property rights, this does not give them licence to override the basic human rights of employees, local community members, and other stakeholders. Deontological theory deals with the belief that everyone, including corporate managers, has a moral duty to treat everyone with respect, including listening and considering others’ needs.

Fourth, CSR aims to encompass stakeholder engagement, thus strengthening the relationship between a company and its internal and external stakeholder groups, as it attempts to address the diversified needs of each group of stakeholders: a safe workplace for employees, quality goods and services at a fair price for clients, job creation for local communities, and so on.

Fifth, CSR encourages more accountability in business practice, thus helping to define the nature of the relationship between corporations and the rest of society. Companies enter into contractual relationships (both explicit and implicit) with other stakeholder groups as a matter of everyday business, and these contractual arrangements can serve as the basis for accountability relationships. For example, companies that receive environmental permits and approvals from regulators to operate facilities are often held accountable by the regulators for whether the terms of the approval are being met. Proponents of social contract theory often argue that corporations are given a ‘licence to operate’ by society in exchange for good behaviour, and as such the corporations should be accountable to society for their performance.

A number of studies have been conducted which provide empirical evidence and have established an argument for the positive relationship between corporate responsibility and corporate sustainability. Examples include:

- A global study examining the relationship between CSR and company stock valuation across three regions of the world over a 10 year period (1995-2005) revealed that socially responsible firms in the United States, Europe and Asia outperformed their long-term financial performance expectations;47 and,


• A meta-analysis of 52 studies yielding a total sample size of 33,878 observations suggested that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility is likely to pay off.\(^{48}\) The analysis found that corporate social performance\(^ {49}\) and financial performance are generally positively related across a wide variety of industry and study contexts. It also confirmed that social performance helps firms to build a positive reputation and goodwill with their external stakeholders.

In conclusion, for a business to be sustained long-term, a company needs to replace a single-financial bottom line with a more balanced triple-bottom line encompassing economic, social and environmental objectives into its business practices (also referred to as “people, planet, profit”). The CSR approach outlines key areas of focus and guidance for its implementation which ultimately seek to achieve these three objectives. The next chapter introduces in detail the world’s largest CSR initiative, which will be employed as a main consideration in this report: the United Nations Global Compact.


\(^{49}\) Defined as ‘a business organization’s configuration of principles of social responsibility, processes of social responsiveness, and policies, programmes, and observable outcomes as they relate to the firm’s societal relationships’. 
CHAPTER II
THE UNITED NATIONS GLOBAL COMPACT AND THE ASIAN WAY TO INTEGRATE THE 10 PRINCIPLES INTO BUSINESS PRACTICES

1. Introduction

Launched in July 2000, the United Nations Global Compact is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. The Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. The Global Compact has gained great attraction around the world, helping it to become the largest global corporate citizenship initiative with 6,985 signatories – 5,206 from business and 1,779 from civil society and other non-business organizations – based in over 135 countries.50 Approximately 800 business signatories are from Asia.

The Global Compact’s ten principles in the areas of human rights, labour, environment and anti-corruption enjoy universal consensus and are derived from four main global agreements:

- The Universal Declaration of Human Rights;
- The International Labour Organization’s Declaration on Fundamental Principles and Rights at Work;
- The Rio Declaration on Environment and Development; and,
- The United Nations Convention Against Corruption.

The Global Compact, endorsed by business executives, is a unique strategic platform for participants to advance their commitments to sustainability and corporate citizenship. Structured as a public-private initiative, the Global Compact is also a policy framework for the development, implementation, and disclosure of sustainability principles and practices, while also offering participants a wide spectrum of specialized work streams, management tools and resources, and topical programmes and projects. It was designed to help advance sustainable business models and markets in order to contribute to the initiative’s overarching mission of helping to build a more sustainable and inclusive global economy. The Global Compact seeks to combine the best properties of the United Nations, such as moral authority and convening power, with the private sector’s solution-finding strengths, and the expertise and capacities of a range of key stakeholders. The initiative is global and local; private and public; voluntary yet accountable. The Global Compact has a unique constellation of participants and stakeholders – bringing companies together with government, civil society, labour, the United Nations, and other key interests.

The Global Compact invites companies to embrace, support and enact, within their sphere of influence, a set of core values in the four key areas of human rights, labour standards, the environment, and anti-corruption, classified into 10 principles.  

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights.
- **Principle 2:** Businesses should make sure that they are not complicit in human rights abuses.
- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
- **Principle 4:** Businesses should uphold the elimination of all forms of forced and compulsory labour.
- **Principle 5:** Businesses should uphold the effective abolition of child labour.
- **Principle 6:** Businesses should uphold the elimination of discrimination in respect of employment and occupation.
- **Principle 7:** Businesses should support a precautionary approach to environmental challenges.
- **Principle 8:** Businesses should undertake initiatives to promote greater environmental responsibility.
- **Principle 9:** Businesses should encourage the development and diffusion of environmentally friendly technologies.
- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

These principles are not just ideals. They can be practically implemented and produce numerous benefits which any business can glean. This chapter seeks to provide the meaning, significance and practical implication of each principle. These principles can be applied in real life with real experience. Therefore, for each principle, some cases are provided to exemplify how successful Asian businesses manage CSR according to the Global Compact principles and subsequently reap the benefits of practicing the principles. A full account of each case is provided in the annex.

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51 Key explanation of each principle is mainly summarized from the United Nations Global Compact website. For full details of each principles and related documents, please visit http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html

52 All the cases summarized in this publication are drawn from case studies write-ups compiled by Global Compact Local Networks for the Investors for Development (I4D) project of ESCAP. The information has been provided by the companies and Dr. Richard Welford of CSR Asia has provided a desk-top review of the cases. However, no third party verification of the cases has been performed. In line with this, the information and opinion expressed in the case study accounts should not be considered as representing the views or carrying the endorsement of ESCAP or its member governments. Mention of company names and commercial products does not imply the endorsement of the United Nations. ESCAP does not guarantee the accuracy of the data included in the cases and accepts no responsibility whatsoever for any consequence of their use.
2. Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights

Based on this principle, the business community has a responsibility to uphold human rights both in the workplace and more broadly within its sphere of influence. A growing moral imperative to behave responsibly is allied to the recognition that a good human rights record can support improved business performance in terms of human capital development. As a minimum, business should strive to ensure that its operations are consistent with the legal principles applicable in the country of operation. Lawsuits against multinationals for poor practice outside their country of origin are a growing trend.

Business practices according to this principle will be benefited in many ways, for example:

- **Promoting the rule of law**: Businesses have an opportunity to promote and raise standards in countries where support and enforcement of human rights issues is insufficient. Societies where human rights are respected are more stable and provide a better environment for business.

- **Addressing consumer concerns**: Consumers are increasingly aware of where their goods come from and the conditions under which they are made. A proactive approach to human rights can avoid problems and thus reduce the potentially negative impacts of adverse publicity from consumer organizations and interest groups.

- **Supply chain management**: Global sourcing and manufacturing means that companies need to be fully aware of potential human rights issues both upstream and downstream. Promoting good practice in human rights will allow business to select appropriate business partners.

- **Increasing worker productivity and retention**: Workers who are treated with dignity and given fair and just remuneration for their work are more likely to be productive and remain loyal to an employer. New recruits increasingly consider the social and environmental record of companies when making their choice of employer.

- **Building good community relationships**: Companies that operate on a global basis are visible to a large audience worldwide as a result of advances in communications technologies. Addressing human rights issues positively can bring rewards both at site level, within local communities, as well as in the broader global commons in which companies operate.

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53 Explanation of each principle is mainly drawn from the official United Nations Global Compact website. See details in http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html
A key starting point is for individuals within companies to develop an understanding of the issues, for example by making reference to the Universal Declaration of Human Rights in company policies. Companies also need to ensure that they are respecting existing national laws in the countries where they operate. Equally important is that respect for human rights is embedded in the core values and culture of the organization. The most effective human rights policies have often been developed and implemented following input from and consultation with relevant stakeholder groups.

Some ideas for bringing human rights into company policy are by:

• developing a company policy and strategy to support human rights;
• developing a health and safety management system;
• providing staff training on human rights issues and how they are affected by business;
• providing staff training on internal company policies as they relate to human rights;
• performing human rights impact assessments of business activities and reviewing them regularly;
• set procedures for regular independent monitoring and verification of compliance with its commitment to uphold human rights standards;
• discussing human rights impacts with affected groups;
• working to improve working conditions in consultation with the workers and their representatives;
• make use of various certification programmes; and
• ensure that regional or international trade agreements actively support, or at least do not have negative implications for, human rights.

Some examples of how companies can support and respect human rights through their daily activities are:

(a) In the workplace:
• by providing safe and healthy working conditions,
• by guaranteeing freedom of association,
• by ensuring non-discrimination in personnel practices,
• by ensuring that they do not use directly or indirectly forced labour or child labour, and
• by providing access to basic health, education and housing for the workers and their families, if these are not provided elsewhere.

(b) in the community:
• by preventing the forcible displacement of individuals, groups or communities,
• by working to protect the economic livelihood of local communities, and
• by contributing to the public debate. Companies interact with all levels of government in the countries where they operate. They therefore have the right and responsibility to express their views on matters that affect their operations, employees, customers and the communities of which they are a part.

Kelani Valley Plantations PLC in Sri Lanka is a member of the Global Compact Local Network and has been successful in putting this principle into practice. This case shows that responsible practice is not only good for society, it is good for the company as well.

**Kelani Valley Plantations PLC, Sri Lanka**

Kelani Valley Plantations PLC (KVPL) owns and manages 13,000 hectares of plantation land in Sri Lanka, annually producing approximately 7,000 tons of tea and 4,000 tons of rubber. KVPL has 15,000 employees and a resident population of about 55,000 within its boundaries. KVPL recorded a turnover of US$30 million in 2008. It forms part of Hayleys PLC.

The plantation industry is highly labour intensive and is often staffed by descendants of indentured workers from Southern India, initially brought over by British plantation owners. As an immigrant minority group they were compelled to lead an isolated existence, totally dependent on the then plantation owners for all their requirements. As part of its commitment to the United Nations Global Compact, KVPL has a responsibility to uphold human rights both in the workplace and more broadly within its sphere of influence. A focus on core human rights ensures that a company provides workers with a safe and secure livelihood enabling an enhanced quality of life. KVPL thus has made CSR a key part of its brand. Their core programme is called “A Home for Every Plantation Worker”. This unique programme supports and respects the protection of internationally proclaimed human rights and is designed to primarily focus on enhancing the quality of life for their worker community with the intention of addressing areas that have a direct bearing on their workers’ lifestyle. The programme also aims to empower their plantation workers and provide them with a means of self improvement and self development, rather than constantly relying on their employer for assistance.

“A Home for Every Plantation Worker” addresses many aspects of a plantation worker’s human rights. The programme has four key parts. First, the Living Environment aspect assists with building and refurbishing good quality housing. Second, the Health and Nutrition assists with pre-school child support and medical facilities through preventive and curative health care, maternal care, immunization, and child growth and development programmes. Third, the Community Capacity Building focus provides nursery and preschool facilities, recreation facilities, and skill/social development projects. Last, the Empowerment of Youth sector monitors child development, guiding education, and providing vocational training.

KVPL’s strategy is to compel the consumer to recognize and purchase ethically produced goods, preferably at a premium, thus enabling the company to support and sustain further human rights initiatives in the future. KVPL has seen its clients and associates become
convinced of the value of the company’s initiatives and subsequently motivated to become partners in specific programmes. As a result, the programme has given the company an edge in product branding and the uniqueness of these initiatives has enabled the company to benchmark many of the associated practices. Recognition of the value of these initiatives by other agencies, such as suppliers and clients, has given the company a preferential status.

From a human resource perspective, the usefulness of the initiatives for employees has assisted in worker retention. The initiative also provides a foundation for a more interactive dialogue between management and employees and a means for consolidating relationships between both parties. The company acknowledges that the employees perceive a greater transparency in the management’s intentions through their engagement. In addition, the programme has attracted much attention extended to the community from outside the plantation, which has enabled the company to build better relationships with the community in general. Its success has led to collaborative welfare programmes in association with other like-minded organizations with the benefits flowing directly to plantation residents. These benchmark initiatives have provided KVPL with a platform for launching niche products guaranteed by genuine ethical labelling. Such initiatives have also introduced a new dimension to KVPL’s relationships with stakeholders.

Source: Kelani Valley Plantations (please refer to footnote 107 in annex)

Principle 2: Businesses should make sure that they are not complicit in human rights abuses

“Complicity” might be a difficult concept to appreciate and categorize, and understanding complicity in order to avoid complicity in human rights violations, represents an important challenge for business. The participation of the company need not actually cause the abuse. Rather, the company’s assistance or encouragement has to be to a degree that, without such participation, the abuses most probably would not have occurred to the same extent or in the same way.

Accusations of complicity can arise in a number of contexts, for example:

- **Direct complicity** occurs when a company actively assists in an abuse of human rights committed by others. An example of this is in the case where a company assists in the forced relocation of peoples in circumstances related to business activity.

- **Beneficial complicity** suggests that a company benefits directly from human rights abuses committed by someone else. For example, violations committed by security forces including the suppression of a peaceful protest against business activities or the use of repressive measures while guarding company facilities, are often cited in this context.

- **Silent complicity** describes the way some human rights advocates might see the failure by a company to raise the question of systematic or continuous...
human rights violations in its interactions with the appropriate authorities. For example, inaction or acceptance by companies of systematic discrimination in employment law against particular groups on the grounds of ethnicity or gender could bring accusations of silent complicity.

An effective human rights policy will help companies avoid being implicated in human rights violations and attacked by global media or civil society groups. Some companies have been able to develop new tools or business initiatives in the process of implementing this principle that are exceptionally contributive to business success. Wilmar International's experience in Indonesia illustrates this type of success.

Wilmar International, Indonesia

Wilmar International is headquartered in Singapore with a primary focus on Indonesia, Malaysia, China, India and Europe. The company is among the world's leaders in palm oil cultivation, refining edible oils, crushing oilseeds, processing and merchandising consumer pack edible oils, specialty fats, bio-diesel manufacturing, and processing and merchandising grains. Wilmar is committed to establishing progressive and sustainable communities wherever it operates. Its philosophy is that business success can only be achieved when local communities grow in tandem with its own growth. However, Wilmar's recent experiences in Indonesia highlighted areas where such policies required major changes in their implementation to safeguard the protection of human rights.

In 2007, Wilmar was challenged by a group of international and grassroots NGOs, representing communities objecting to Wilmar's plantation development in Kalimantan, Indonesia. At the time, Wilmar operated in compliance with Indonesian legislation, and had obtained the relevant legal permits. Despite this, Wilmar found itself involved in a community land conflict caused in part by unclear land permits and a lack of legal frameworks protecting customary and indigenous rights in Indonesia. This conflict affected the company's reputation with customers and reduced investor confidence. Because of this experience, Wilmar realized it needed a more proactive approach, which would prevent further accusations of complicity in land conflicts and human rights abuses. The company developed a new approach for doing business based on a multi-stakeholder process involving NGOs, lenders and extensive consultation with affected communities. This new approach ensures that customary and indigenous rights are always respected, and that communities are empowered to give their Free, Prior and Informed Consent (FPIC) to development.

Wilmar has strengthened its procedures to ensure that it does not inadvertently contribute to the disenfranchisement of indigenous populations, or breach customary rights. The company has developed a number of policies and procedures to ensure that all mutual agreements with communities and individuals in Indonesia are clearly defined, documented and legally established, thus demonstrating clear evidence of long-term land use rights for its land. The approach is as follows:

- Wilmar's policy is to not develop palm oil in areas where local communities are not supportive, are divided or where they dispute development. This is done through the use of the FPIC framework for all new developments.
• Implementation of FPIC is secured through negotiations directly with individual landowners, local community landowners and local community leaders.

• The entire FPIC process is witnessed by local officials and documented by Wilmar.

• The company pays statutory compensation to local community leaders for existing crops, together with a full notarization of agreements documenting ownership of land rights.

• In areas where the company’s presence is welcome and communities are happy with the benefits it may bring, Wilmar continues to play an active role in enhancing socio-economic development, especially through employment schemes.

• Aside from monetary compensation, Wilmar also offers employment opportunities that enable villagers to earn a long term income.

• In cases where local occupants are unwilling to allow their land to be used, the land is delineated as social enclaves for community use.

In cases where there are existing conflicts, Wilmar uses a similar approach, based on the Free and Informed Consent (albeit Post rather than Prior). The company’s Land Claims Resolution System encompasses an inclusive multi-stakeholder approach, working closely with local civil society organizations. Wilmar has found the FPIC framework useful and has helped to provide guidance for other companies operating in land-based industries, and in areas where customary and indigenous rights are not fully reflected in national legal frameworks. Although the FPIC framework should ideally be used to prevent conflicts through prior consent, Wilmar’s experience shows that the framework can also be helpful in resolving existing conflicts and enhancing community trust.

Source: Wilmar International (please refer to footnote 107 in annex)

Companies may wish to consider the following issues when assessing its practices against this principle:

• Has the company made human rights assessment of the situation in countries where it does, or intends to do, business so as to identify the risk of involvement in human rights abuses and the company’s potential impact on the situation?

• Does the company have explicit policies that protect the human rights of workers in its direct employment and throughout its supply chain?

• Has the company established a monitoring system to ensure that its human rights policies are being implemented?

• Does the company have an explicit policy to ensure that its security arrangements do not contribute to human rights violations? This applies whether it provides its own security, contracts it to others or in the case where security is supplied by the State.

• Does the company actively engage in open dialogue with human-rights organizations?
With respect to this last issue it is suggested that businesses shall:

- respect international guidelines and standards for the use of force (such as the United Nations Basic Principles on the Use of Force and Firearms by Law Enforcement Officials and the United Nations Code of Conduct for Law Enforcement Officials);
- if financial or material support is provided to security forces, establish clear safeguards to ensure that these are not then used to violate human rights; and make clear in any agreements with security forces that the business will not condone any violation of international human rights laws;
- privately and publicly condemn systematic and continuous human rights abuses;
- continually consult within and outside the company with relevant stakeholders during both pre-investment and post-investment stages;
- raise awareness within the company of known human rights issues within the company’s sphere of influence;
- identify those functions within the firm that are most at risk of becoming linked to human rights abuses, possibly even at the pre-investment/project exploration and planning stage, and where there might be opportunities to advance human rights;
- conduct a human rights impact assessment consisting of an analysis of the functions of a proposed investment and the possible human rights impacts (intended and unintended) they may have on the community or region; and
- identify internal ‘functional risks’ in the post-investment situations. This may involve looking at such functions as purchasing, logistics, government relations, human resource management, HSE (health, safety and environment), sales and marketing.

3. Labour standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

Establishing genuine dialogue with freely chosen workers’ representatives enables both workers and employers to understand each other’s problems better and find ways to resolve them. Security of representation is also a foundation for building trust on both sides. Freedom of association and the exercise of collective bargaining provide opportunities for constructive rather than confrontational dialogue, and this harnesses energy to focus on solutions that result in benefits to the enterprise, its stakeholders, and society at large. The guarantee of representation through a “voice at work” facilitates local responses to a globalized economy, and serves as a basis for sustainable growth and secure investment returns. The results help bridge the widening representational gap in global work arrangements, and facilitate the input of those people, regions and economic sectors –
especially women and informal sector workers – who otherwise may be excluded from participating in processes that build decent work environments.

Freedom of association and collective bargaining involve employers and workers and their respective organizations freely discussing issues at work in order to reach agreements. Collective bargaining requires independent parties and thus representative organizations of workers (including trade unions). In order to function, trade unions require respect for various internationally recognized civil and political liberties including freedom of speech and assembly, freedom from arbitrary arrest and the right to be free of government interference, for instance.

The United Nations Global Compact does not suggest that employers change their industrial relations frameworks. However, as organizations such as the International Organization of Employers have indicated, some ‘high performance’ companies have recognized the value of using dialogue and negotiation to achieve competitive outcomes. There are numerous initiatives companies can undertake to practice this third principle:

**In the workplace**

- Ensure that all workers are able to form and join a trade union of their choice without fear of intimidation or reprisal.
- Ensure union-neutral policies and procedures that do not discriminate against individuals because of their views on trade unions or for their trade union activities. Such policies or procedures could include applications for employment; record keeping or decisions on advancement, dismissal or transfer.
- A company should not interfere with the activities of worker representatives while they carry out their functions in ways that are not disruptive to regular company operations. Practices such as allowing the collection of union dues on company premises, posting of trade union notices, distribution of union documents, and provision of office space, have proven to help build good relations between management and workers, provided that they are not used as a way for the company to exercise indirect control.

**At the bargaining table**

- Recognize representative organizations for the purpose of collective bargaining.
- Use collective bargaining as a constructive forum for addressing working conditions and terms of employment and relations between employers and workers, or their respective organizations.
- Address any problem-solving or preventive need within the imagination and interests of workers and management, including restructuring and training needs, redundancy procedures, safety and health issues, grievance and dispute settlement procedures, disciplinary rules, and family and community welfare.
- Provide information needed for meaningful bargaining.
• Balance dealings with the most representative trade union to ensure the viability of smaller organizations to continue to represent their members.

In the community of operation

• In countries where the government does not promote respect for human rights (including rights at work) or does not provide a proper legal and institutional framework for industrial relations and collective bargaining, preserve the confidentiality of the trade unions and leaders.
• Support the establishment and functioning of local/national employers’ organizations, and trade unions.
• Inform the local community, media and public authorities of your company’s endorsement of the United Nations Global Compact and its intention to respect its provisions, including those on fundamental workers’ rights.

Although this principle may challenge conventional thought of many executives and raise concerns over business stability once giving employees more freedom and a bargaining platform, the experience of the China Ocean Shipping (Group) Company (COSCO) confirms that this principle can be practically implemented with extensive benefits to company. This new approach to human resource management, which highlights the role of workers in creating a more sustainable enterprise, has been clearly observed in the case of COSCO.

China Ocean Shipping (Group) Company, China

China Ocean Shipping (Group) Company (COSCO) is a large global enterprise group focusing on international shipping, modern logistics, building and repairing ships, and integrating functions such as terminal management, shipping agency, trade, finance, IT and labour services. With an acknowledged worldwide leading position, COSCO Group is China’s largest international shipping, logistics, ship-building and ship-repairing enterprise group. COSCO owns and controls over 800 modern merchant vessels with a total tonnage of 51 million deadweight tons and, by the end of 2007, an annual carrying capacity of 400 million tons. COSCO Group’s shipping lines cover over 1,500 ports in more than 160 countries and regions worldwide, and its fleet size ranks first in China and second in the world.

Based on requirements regarding crew employment and management in the Regulations for Seafarers and the Labour Contract Law, COSCO Group has formulated its Human Resources Management Procedures, Safety Risk Management Procedures, Employees Brochure, and the Collection of Organization and Human Resources Working System, all of which define policies related to employee recruitment, management, and employment, as well as occupational health, labour safety and welfare. These regulations provide a solid policy base and system for the construction of a harmonious COSCO Group.

The group has established and improved articles of association for labour unions, along with organizing collective, democratic negotiations and encouraging communication and exchanges between employees’ representatives and members of top management.
within the company. It set up a female employees’ committee as well as other organizations to protect legal rights and interests of female staff, which ensures the physical and psychological health of women. Trade unions at all levels of COSCO Group protect the legal rights and interests of employees. They have mobilized and organized employees to participate in discussions relating to production, operations, management and reform. The collective bargaining approach has been centred on democratic decision-making.

In 2007, the contents of the Collective Contract of COSCO Group were negotiated through employee representation which led to new contracts that further improved the construction of the system and the mechanism for coordinating labour relations and protecting the legal rights and interests of employees.

Each year, production and operation objectives are submitted to employee representative conventions for discussion and review. This, in turn, leads to the development of employee action plans. Through such a mechanism COSCO believes that it is able to enhance the transparency of its enterprise affairs. These mechanisms play an active role in creating an open, accountable and just work environment, mobilizing employees’ commitment, enhancing the stability of working teams, and improving the quality of decision-making.

Based on the engaging approach of its human resource management, COSCO workers are better protected, feel more involved in the organization and are consequently more productive and loyal. With the objectives of ensuring the occupational health and safety of employees and creating harmonious labour relations, the COSCO Group has put in place a long-term human resource development strategy to encourage innovation, improve its management and establish an effective and respectful enterprise.

Source: COSCO (please refer to footnote 107 in annex)

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour

Forced or compulsory labour is any work or service that is extracted from any person under the menace of any penalty, and for which that person has not offered him/herself voluntarily. Providing wages or other compensation to a worker does not necessarily indicate that the labour is not forced or compulsory. By right, labour should be freely given and employees should be free to leave in accordance with established rules.

Forced labour deprives societies of the opportunity to develop human resources for the modern labour market, and to develop skills and educate children for the labour markets of tomorrow. The debilitating consequences of forced labour are felt by the individual, in particular by children, as well as by the economy itself since the degradation of human capital and social stability results in insecure investments. By retarding the proper development of human resources, forced labour lowers the level of productivity and economic growth for society generally. The loss of income due to disruption of regular jobs or income-generating activities reduces the lifetime earnings of whole families and with it, the loss of food, shelter, and health care.
Forced and compulsory labour can take a number of forms:

- Slavery;
- bonded labour or debt bondage in which both adults and children are obliged to work in slave-like conditions to repay debts of their own or their parents or relatives;
- child labour in particularly abusive conditions where the child has no choice about whether to work;
- the work or service of prisoners if they are hired to or placed at the disposal of private individuals, companies or associations involuntarily and without supervision of public authorities;
- labour for development purposes required by the authorities, for instance to assist in construction, agriculture, and other public works;
- work required in order to punish opinion or expression of views ideologically opposed to the established political, social or economic system;
- exploitative practices such as forced overtime or the lodging of deposits (financial or personal documents) for employment;
- physical or psychological violence as a means of keeping someone in forced labour (direct or as a threat against worker, family, or close associates);
- full or partial restrictions on freedom of movement;
- withholding and non-payment of wages (linked to manipulated debt payments, exploitation, and other forms of extortion);
- induced indebtedness (by falsification of accounts, charging inflated prices, reduced value of goods or services produced, excessive interest charges, etc.); and
- threats to denounce to the authorities workers in an irregular situation.

While companies operating legally do not normally employ such practices, forced labour can become associated with enterprises through their use of contractors and suppliers. As a result, all companies should be aware of the forms and causes of forced labour, as well as how it might occur in different industries. Understanding the causes of forced labour is therefore the first step towards taking action against forced labour, which requires a comprehensive set of interventions to address not only the needs of individual forced labourers but also the needs of their families. If forced labour is identified then these individuals should be removed and facilities and services should be provided to enable them to make adequate alternatives. In general, a combination of workplace and community actions is needed to help ensure the eradication of forced labour practices, which include:

**In the workplace**

- have a clear policy not to use, be accomplice in, or benefit from forced labour;
- ensure that all company officials have full understanding of what forced labour is;
• be aware of countries, regions, industries, sectors, or economic activities where forced labour is more likely to be a practice;

• make available to all employees, employment contracts stating the terms and conditions of service, the voluntary nature of employment, the freedom to leave (including the appropriate procedures) and any penalties that may be associated with a departure or cessation of work;

• in planning and conducting business operations, ensure that workers in debt bondage or in other forms of forced labour are not engaged and, where found, provide for the removal of such workers from the workplace with adequate services and provision of viable alternatives in the community of operation;

• institute policies and procedures to prohibit the requirement that workers lodge financial deposits with the company;

• if hiring prisoners for work in or outside prisons is needed, ensure that their terms and conditions of work are similar to those of a free employment relationship in the sector involved, and that they have given their consent to working for a private employer;

• ensure that large scale development operations in which an employer participates do not rely on forced labour in any phase;

• carefully monitor supply chains and subcontracting arrangements;

• write employment contracts in languages easily understood by workers, indicating the scope of and procedures for leaving the job.

In the community of operation

• assist in the development of guidelines by sectoral industrial associations and small or medium enterprises where debt bondage or such practices are known to be commonplace;

• support and help design education, vocational training, and counselling programmes for children removed from situations of forced labour;

• help develop skills training and income-generating alternatives, including micro-credit financing programmes, for adults removed from situations of forced labour;

• encourage supplementary health and nutrition programmes for workers removed from dangerous forced labour, and provide medical care to assist those affected by occupational diseases and malnutrition as a result of their involuntary work;

• where use is made of prison labour, ensure that the terms and conditions of work are beneficial to the prisoners (particularly with regard to occupational health and safety), and that they have given consent to work for a private employer.
Bangladesh relies on a heavily labour intensive economy as it enjoys the benefit of relatively cheap labour costs that attracts foreign brands in outsourcing their products. This has become one of the major sources of revenue for the country. The Viyellatex case demonstrates that there is an opportunity to make profits and provide worthwhile and well remunerated work without the need for forced labour or other forms of exploitation.

Viyellatex, Bangladesh

Viyellatex is an export oriented knit garment manufacturer which was established in 1996. It is the single largest ISO certified knit garment company in Bangladesh. The company’s mission statement is, “We want to take Viyellatex to the highest level of excellence in the textile and apparel world.” Currently, the group has 72 sewing lines for knit garments and 28 lines for woven garments with a capacity of 2.2 million and 0.5 million pieces per month, respectively. More than 11,000 people are working in the Viyellatex group (60 per cent female, 40 per cent male).

Viyellatex recognized the need for good labour practices by setting its standards well above the prevailing industry standards. Its management focuses on having a strong foundation of corporate governance, and emphasizes the need for policies and systems covering health and safety, human resource management, non-discrimination, accurate payment of wages and, in particular, the principle of upholding the elimination of all forms of forced and compulsory labour. The company has a clear policy stating: “Viyellatex shall execute its activity with the highest regard to integrity for all employees, and shall treat each of them equally with self-esteem and proper admiration, and shall not engage in any activity that forces its human resources to work against their will.”

There are many different aspects to forced labour, which are addressed in nearly every company policy, including working hours, discrimination, child labour, and remuneration. The Human Resource and Compliance Department manages any problems associated with forced labour. There are numerous examples of human resource practices to ensure that the company does not engage in any form of forced or compulsory labour. These include:

- Every worker is provided with appropriate documents/contracts of their employment which is clearly stated and easily understood by the individual.
- Viyellatex has introduced a new minimum pay scale which is 20 per cent higher than the government’s existing minimum pay structure.
- Salaries are paid within seven working days of the next month, as per national law, and there are no incidents of late or withheld payments.
- The company does not provide its employees with any sort of loans that might force workers to remain with the company. If employees need financial assistance, they are provided a reasonable amount of assistance from the welfare fund which is non-refundable.
- Workers are also provided with benefits of a provident fund, free lunch, maternity leave for female workers (including a free ultrasound), free medical treatment on a bi-weekly basis and annual free eye clinic (including surgery and medicine) for
both themselves and their families, so that family health problems do not cause them to work against their will.

• A worker can leave his/her respective job by simply giving two months prior notice (as per local labour law), giving the company adequate time to fill the vacancy with another skilled-worker, and retiring workers are not to be ill treated in this regard.

• Boxes for complaints and suggestions are provided in every toilet and washroom for employees to express any grievance or give suggestions.

• With an appropriate timetable and register book, the company also monitors the working hours of its workers and has stated that management cannot force or penalize any worker who fails to complete his/her daily quoted target.

• Regular training programmes for workers are arranged to educate them about their rights in the workplace, along with policies and procedures to help maintain a healthy and productive workplace. In this regard, the company works with different development agencies, NGOs, and CSOs, and has earned a good reputation for so doing.

Viyellatex is the only Fair Trade accredited textile and apparel business (yarn to garment) in Bangladesh and is also certified to produce organic products under the “Global Organic Textile Standards-GOTS” and Organic Exchange. They have been recognized by a number of external agencies for their economic, social and environmental contributions. More broadly the company has been able to demonstrate that it is possible to run a successful business without any forms of forced labour. This has significant benefits to society as people are provided with access to income to support their families and communities.

Source: Viyellatex (please refer to footnote 107 in annex)

Principle 5: Businesses should uphold the effective abolition of child labour

Child labour is work that is damaging to a child’s physical, social, mental, psychological and spiritual development because it is work performed at too early an age. Child labour deprives children of their childhood and their dignity. They are deprived of an education and may be separated from their families. Children who do not complete their primary education are likely to remain illiterate and never acquire the skills needed to get a job and contribute to the development of a modern economy. Consequently child labour results in under-skilled, unqualified workers and jeopardizes future improvements of skills in the workforce. In fact, children have the same human rights as adults, but by virtue of their age and the fact that they are still growing and gaining knowledge and experience, children have some distinct rights as children. These rights include protection from economic exploitation and work that may be dangerous to their health or morals and that may hinder their development or impede their access to education.

ILO conventions (Minimum Age Convention No. 138 and the Worst Forms of Child Labour Convention No. 182) provide the framework for national law to prescribe a minimum age for admission to employment or work that must not be less than the age for completing
compulsory schooling, and in any case not less than 15 years. Lower ages are permitted for transitional periods – generally in countries where economic and educational facilities are less well-developed the minimum age is 14 years and 13 years for ‘light work’. On the other hand the minimum age for hazardous work is higher at 18 years.

Table 1: Minimum ages for work

<table>
<thead>
<tr>
<th>Developed countries</th>
<th>Developing countries</th>
</tr>
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<tbody>
<tr>
<td>Light Work</td>
<td>13 Years</td>
</tr>
<tr>
<td>Regular Work</td>
<td>15 Years</td>
</tr>
<tr>
<td>Hazardous Work</td>
<td>18 Years</td>
</tr>
<tr>
<td>Light Work</td>
<td>12 Years</td>
</tr>
<tr>
<td>Regular Work</td>
<td>14 Years</td>
</tr>
<tr>
<td>Hazardous Work</td>
<td>18 Years</td>
</tr>
</tbody>
</table>

*Source: ILO, Minimum Age Convention No. 138 and the Worst Forms of Child Labour Convention No. 182*

Developing an awareness and understanding of the causes and consequences of child labour is the first step that a company can take toward action against child labour. This means it first has to identify the issues and determine whether or not child labour is a problem within the business. If an occurrence of child labour is identified, the children need to be removed from the workplace and provided with viable alternatives. These measures often include enrolling the children in schools and offering income-generating alternatives for the parents or above-working age members of the family. Companies need to be aware that, without support, children may be forced into worse circumstances such as prostitution, and that, in some instances where children are the sole providers of income, their immediate removal from work may exacerbate rather than relieve the hardship.

A case of the Central Azucarera Don Pedro (CADP) Group Corporation provides a good example of successful business engagement with this principle. The company was conferred with the “Child Friendly Company” award on May 2008 by the Employers’ Confederation of the Philippines. Their success has helped to build its reputation and strengthen the trusting relationship among customers, communities and other stakeholders.

Central Azucarera Don Pedro (CADP) Group Corporation, Philippines

CADP Group Corporation is one of the largest sugar corporations in the Philippines. Established in 1918 and strategically situated in Luzon and Visayas, it is the biggest raw sugar producer and the second biggest refiner in the Philippines, producing 19 per cent and 20 per cent of national production, respectively. In 2008, sales amounted to 6,077,312,000 pesos (approximately US$126 million). CADP owns and operates sugar milling facilities and refineries. The company adheres to the principle of not employing minors (under 18 years old), as stipulated in the labour code of Philippines law.

At sugarcane farms in the Philippines, there has always been an issue of sugarcane cutters bringing their children to work with them. Although CADP does not maintain any sugarcane farms itself, they police their farms by asking for the birth certificate and other documents to verify the ages of all workers. To help manage problems associated with
child labour, the company also participates in a programme that addresses the problem of child labour in the sugar industry. The programme was established by the International Labour Organization in cooperation with the Employers Confederations of the Philippines and the Sugar Industry Foundation Inc. (SIFI).

The root cause of child labour is poverty and therefore it is not enough to simply ban children from farms. There needs to be alternatives for children and, in particular, an encouragement and financial support to encourage children to attend school. As part of the company’s commitment to its corporate social responsibility, a particular emphasis has therefore been put on providing programmes and services that improve the living conditions and health of families in the community where CADP operates. In addition to CADP’s regular educational assistance programme, the company has formed a partnership with the Education Research Development Agency Foundation and SIFI to provide scholarships and financial assistance for pre-school, elementary, high school and college students. It has also supported several feeding programmes for under-nourished children and supports nutrition classes for mothers. The company also conducts workshops on maternal and child health, family planning and the rights of children. Career orientation programmes and leadership training are also provided for senior high school students.

All of these activities were carried out by CADP’s Community Development Department. This department is responsible for planning and designing programmes in consultation with the local community. The company sees it as vitally important to get the support of local communities. In some cases local communities have even planned their own health and education programmes and presented them to the Community Development Department for possible support and assistance. CADP has learned that programmes supporting children must be actively managed, and that it is not enough to simply provide financial assistance. Active management of the programmes increases the success rate, as the CADP employs community development specialists that are assigned in the community to work closely with the organizations delivering programmes.

The ownership of the programmes that CADP supports is given to the community. They must take ownership for their successful implementation. But, monitoring and measurement is central to ensuring that programmes are successful and result in a reduction of child labour, an improvement in school attendance and improved health for children and their mothers. To make any social programme sustainable, CADP has set up systems in the community that monitor programmes based on key performance indicators.

Engaging with the issue of child labour and contributing to the health and welfare of the wider community creates a better relationship with local stakeholders and has helped to develop the company’s reputation as being a responsible business that addresses the needs of communities wherever it operates. CADP recognises that child labour poses risks to its reputation and also stresses the need to take a community-wide approach to tackling the root causes of child labour. CADP’s experience has led to its philosophy that it can only tackle child labour by taking a holistic approach to tackling poverty, enhancing health and providing educational opportunities for the whole community. This approach has demonstrated the company’s real commitment to dealing with child labour and has increased trust among the company’s stakeholders.

Source: Central Azucarera Don Pedro (CADP) Group (please refer to footnote 107 in annex)
In action, business must be aware of countries, regions, sectors, economic activities where there is a greater likelihood of child labour and respond accordingly with policies and procedures appropriate to:

- adhere to minimum age provisions of national labour laws and regulations and, where national law is insufficient, take account of international standards;
- use adequate and verifiable mechanisms for age verification in recruitment procedures;
- when children below the legal working age are found in the workplace, take measures that provide for their removal and seek viable alternatives with other partners for the children and their families;
- exercise influence on and provide positive incentives for subcontractors, suppliers and other business affiliates to combat child labour in the spirit of ILO’s principles concerning child labour;
- develop and implement mechanisms to detect child labour;
- where wages are not determined collectively or by minimum wage regulation, take measures to ensure that wages paid to adults take into account the needs of workers and their families as well as the cost of living;
- assist in the development of guidelines consistent with the objectives of Principle 5 by sectoral industrial associations and small to medium-sized enterprises;
- support and help design educational, vocational training, and counselling programmes for working children, and skills training for parents of working children; and
- encourage and assist in launching supplementary health and nutrition programmes for children removed from dangerous work, and provide medical care to cure children of occupational diseases and malnutrition.

Companies involved with global supply chains and contractors in developing countries are playing an increasing role in tackling child labour along these supply chains. The case of Brandix Lanka Limited illustrates an example how a company within a global supply chain adopted “zero” child labour as a key factor in establishing business partnerships in North American and European markets. The continuous commitment to high ethical standards has helped Brandix attract and maintain buyer relationships.

Brandix Lanka Ltd., Sri Lanka

Brandix Lanka Limited (Brandix) is one of Sri Lanka’s largest exporters of apparel and a provider to some of the world’s leading apparel brands. Brandix has made a commitment to ensure that its business decisions will balance economic progress, whilst driving a culture of sustainable development through a consciousness for the environment and the community. In the manufacturing industry, particularly in South Asia, child labour is a critical, regional issue. Sri Lankan communities place a high priority on abolishing child
labour and Brandix, as one of the biggest manufacturers in Sri Lanka, has taken a lead in supporting this objective.

The Brandix Board of Directors decided to implement a policy to abolish child labour, and has since been able to achieve “zero” child labour by setting a minimum age for recruitment. Initially the minimum was set at 16 years, adhering to the minimum statutory age for employment in the apparel sector, and was subsequently raised to 18 years, with the provision that persons between 16 and 18 could be recruited under special conditions, such as apprenticeships. For those employees, Brandix operates a special system to develop their skills and improve their quality of life. This has led to further initiatives in support of educational programmes in Sri Lanka.

The company has also incorporated into their Code of Conduct actions such as conducting risk assessments to identify current and potential child labour in their suppliers’ and sub-contractors’ workplaces. However, the company recognizes that child labour has not been completely eliminated and has taken steps to initiate programmes to ensure compulsory education for children who are found to be employed in the workplace. It is also supporting the development of schools and educational programmes to help provide real alternatives to work. It also supports career development for youth, making sure that they are aware of their options and not forced into abusive working conditions. Education programmes and schools have developed as a way of minimizing the possibility of children entering the workforce. Every Brandix factory takes ownership in developing at least one school per year. In recent years Brandix has supported more than 40 schools by developing facilities, providing aid to train teachers and helping to develop special educational programmes.

As Brandix is now in compliance with all of its Code of Conduct elements, the company has begun to implement several pilot projects in order to identify better criteria that can further meet the needs of their CSR policies. Such projects include further development of schools; an Ethical Trading Initiative (ETI) pilot project, a tripartite audit methodology to ensure that companies are adhering to ETI standards; coordinating with the GAP (a global fashion company) in SA8000 implementation at manufacturer levels; and working with the NGO Garments Without Guilt.

With regard to its human resources, the company has learned that it has been able to attract and retain capable employees which has led to significant cost reductions in resources needed to spend on training staff. There are minimal interruptions to the manufacturing process because of its highly satisfied workforce, and they have successfully won the trust of their employees and their family members. It has also contributed to a harassment free working environment for current employees, and includes special supplemental programmes for children and siblings of Brandix employees.

From a business perspective, the abolition of child labour is a key factor in establishing business partnerships in North American and European markets. Brandix has managed to develop a reputation as an ethical company by its customers, employees, various communities, NGOs, trade unions, and the Sri Lankan government. The efforts to abolish child labour are well-recognized and have helped Brandix in conducting business and developing partnerships with many international buyers such as the GAP, Marks & Spencer, and Tommy Hilfiger.

Source: Brandix Lanka Ltd. (please refer footnote 107 in annex)
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation

Discrimination in employment and occupation means treating people differently or less favourably because of characteristics that are not related to their merit or the inherent requirements of the job. These characteristics commonly include: race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, and sexual orientation. However, Principle 6 allows companies to look at additional grounds where discrimination in employment and occupation may arise. Discrimination can arise in a variety of work-related activities, such as:

• Recruitment;
• Remuneration;
• hours of work and rest, paid holidays;
• maternity protection;
• security of tenure;
• job assignments;
• performance assessment and advancement;
• training and opportunities;
• job prospects;
• social security; and
• occupational safety and health.

Non-discrimination means simply that employees are treated on the basis of their ability to do the job and that there is no distinction, exclusion or preference made on other grounds. Employees who experience discrimination at work are denied opportunities and have their basic human rights infringed. This affects the individual concerned and negatively influences the greater contribution that they might make to society.

From a business point of view, discrimination is an issue that should be of concern to all businesses because discriminatory practices in employment and occupation restrict the available pool of workers and skills, as well as leading to slow economic growth for society as a whole. The lack of a climate of tolerance results in missed opportunities for development of skills and infrastructure to strengthen competitiveness in the global economy. Finally, discrimination isolates an employer from the wider community and can damage a company’s reputation, potentially affecting profits and stock value.

Therefore, companies should develop and promote an equal opportunity policy that applies qualification, skill and experience as the grounds for managing their employees by putting in place specific activities to address the question of discrimination and eliminate it within the workplace by some of the following examples:
• institute company policies and procedures which make qualifications, skill and experience the basis for the recruitment, placement, training and advancement of staff at all levels;
• assign responsibility for equal employment issues at a high level, issue clear company-wide policy and procedures to guide equal employment practices, and link career advancement to desired performance in this area;
• establish programmes to promote access to skills development training and to particular occupations;
• work on a case by case basis to evaluate whether a distinction is an inherent requirement of a job, and avoid systematic applications of job requirements in a way that would systematically disadvantage certain groups;
• keep up-to-date records on recruitment, training and promotion that provide a transparent view of opportunities for employees and their progression within the organization;
• where discrimination is identified, develop grievance procedures to address complaints, handle appeals and provide recourse for employees;
• be aware of formal structures and informal cultural issues that can prevent employees from raising concerns and grievances;
• provide staff training on disability awareness and reasonably adjust the physical environment to ensure health and safety for employees, customers and other visitors with disabilities.

Outside the workplace companies also have a role to play in eliminating discrimination, for example by encouraging and supporting efforts in the community to build a climate of tolerance and equal access to opportunities for occupational development. In foreign operations, companies may need to accommodate cultural traditions and work with representatives of workers and governmental authorities to ensure equal access to employment by women and minorities.

The case of SS Steel (Private) Limited is provided to showcase the achievement of a company that adopted a non-discrimination policy on gender and successfully integrated the practice of non-discrimination with respect to gender into the company’s policies.

SS Steel (Pvt) Ltd., Bangladesh

SS Steel (Pvt) Ltd., started 26 years ago, is located in the heart of the oldest industrial region in Dhaka, Bangladesh. In its beginning stage, business was dedicated solely to producing reinforcement-bars from small rolling mills. Today SS Steel has expanded its capability in every aspect of the production spectrum while narrowing its product focus to become a specialty production mill. The entire process from melting mild steel scrap in induction furnaces to producing the end product of reinforced bars at the rolling mills is conducted in the company’s facilities.
Steel factories generally require extensive heavy work that is relatively tough for workers. Workers in steel factories often work lesser hours than required in other types of industries and are paid higher than others. But, the foremost challenge is that this type of work requires a great deal of muscular strength to work, and thus men are more able to handle the work than women. SS Steel has addressed the issue of discrimination on the subject of employment of men and women in the steel factory.

Ms. Kazi Sarazeen, Director of Operations, first identified the issue of gender discrimination inside the work premises. She, being the only female member of management, thought to maintain an equitable ratio among workers with respect to gender. But the main difficulty was to find ways to engage female workers into the heavy work of a steel manufacturing plant. She came up with the idea of employing female workers in supporting areas. Now she is able to maintain a ratio of 60:40 male to female workers.

While men are usually responsible for the work of carrying heavy metal and steel into the manufacturing process, women work in making infrastructure for iron sheets, cooking free lunches provided to employees twice a day, separating scrap disposals, cleaning, and other light work. But, male workers are paid higher than female workers as they perform core tasks and female workers perform supplementary tasks. Female workers tend to accept this since most are family counterparts of male workers and income goes to their family. Workers are provided with subsidies to shift their homes nearby the factory premises and get free medical treatment for both themselves and their families. Management ensures that all benefits are provided equally and fairly to all workers, and there is no trace of direct discrimination, indirect discrimination, victimization or harassment.

The practice of non-discrimination with respect to gender has provided SS Steel with a productive and satisfied workforce where many family members often work together enhancing household incomes. In most cases, men and women of the same family earn and work together while staying nearby the factory. The next step for the company will be to develop a clearly stated policy against discrimination. SS Steel has demonstrated that women play a very valuable role in the workforce and can contribute significantly to a successful, business that promotes equal opportunities. It demonstrates to society at large that women can play an important role in a workplace that also supports the family unit.

Source: SS Steel (Pvt) Ltd. (please refer footnote 107 in annex)

4. The environment

Principle 7: Businesses should support a precautionary approach to environmental challenges

Precaution involves the systematic application of risk assessment (hazard identification, hazard characterization, appraisal of exposure and risk characterization), risk management and risk communication. When there is reasonable suspicion of harm and decision makers need to apply precaution, they have to consider the degree of uncertainty that appears from scientific evaluation. Deciding on the “acceptable” level of
risk involves not only scientific-technological evaluation and economic cost-benefit analysis, but also political considerations such as acceptability to the public.

The key element of a precautionary approach, from a business perspective, is the idea of prevention rather than cure. In other words, it is more cost-effective to take early action to ensure that irreversible environmental damage does not occur. Issues for the company to deal with under this approach include providing better information to the consumer, communicating potential risk for the consumer, the public or the environment. It also includes obtaining prior approval before certain products, deemed to be potentially hazardous may be placed on the market.

Steps that the company could take in the application of this approach include the following:

- Develop a code of conduct or practice for its operations and products that confirms commitment to care for health and the environment.
- Develop a company guideline on the consistent application of the approach throughout the company.
- Create a managerial committee or steering group that oversees the company application of precaution, in particular risk management in sensitive issue areas.
- Establish two-way communication with stakeholders, in a pro-active, early stage and transparent manner, to ensure effective communication of information about uncertainties and potential risks and to deal with related enquiries and complaints. Use mechanisms such as multi-stakeholder meetings, workshop discussions, focus groups, public polls combined with use of website and printed media.
- Support scientific research, including independent and public research, on the issue involved, working with national and international institutions concerned.
- Join industry-wide collaborative efforts to share knowledge and deal with issues, in particular production processes and products around which a high level of uncertainty, potential harm and sensitivity exist.

The case of Toppan Printing Co., Ltd., a high quality printed materials provider, exemplify the way how a company can exercise this precautionary principle by implementing in-house control standards that go beyond compliance to government regulations. By formulating such stringent standards and undertaking relevant measures, Toppan is not only able to reduce environmental burden, prevent pollution, and comply with the law, but to comply with its own high values of corporate social responsibility. Moreover, by supporting the precautionary principle Toppan hopes to gain the confidence and trust of the community and its customers, especially with regards to the management of chemicals and protection of the environment. In effect, this could potentially lead to the expansion of business opportunities.
Toppan Printing Co., Ltd., Japan

Toppan Printing Co., Ltd. is a leading provider of high quality printed materials in Japan. The company is taking responsibility for its actions that have social and environmental impacts based on belief that the company can only further its growth by working in harmony with society and the global environment. Toppan’s main activities in relation to the precautionary principle involve the management of its chemical solution storage tanks and the prevention of leakages that could harm the environment. The precautionary approach is best embedded into an organization through a management system that deals with environmental risks. This directly links to a risk assessment and audit process.

Toppan’s comprehensive risk management system is based on the principles of ‘prevention’ and ‘emergency response’. The company has embedded this into a system with a clear organizational structure and has established clear-cut lines of responsibility for risk management which are organized on a divisional basis and overseen by related departments at the head office. This allows for more rapid and efficient communication of information. In addition, Toppan has made its internal auditing and risk management office independent from administrative departments and continuously works on enhancing and strengthening the auditing system.

Toppan has worked closely with external auditors, industry associations and its own customers on pollution prevention measures and standards. Through holding briefings and other educative and informative events, Toppan has also obtained the understanding and cooperation of its business partners. In regard to environmental compliance, Toppan implements in-house environmental risk audits, performs on-site checks, and conducts interviews with staff. For domestic production sites in Japan, these checks are performed once a year. For sites overseas, they are conducted once every two years. Additional reviews are conducted for operational sites where deemed as necessary. As a result, these actions help Toppan obtain a pre-emptive prevention of accidents and problems. On an annual basis risk investigations are carried out and countermeasures implemented in cooperation between the head office, different departments in charge and Toppan’s operational sites. Results of the investigation and progress on countermeasures are reported to the management.

Toppan has implemented in-house control standards that go beyond compliance to government regulations. Depending on the items specified by the regulations, it operates with voluntary standard values that are 50 to 90 per cent stricter than the legal requirements. Preventive measures have, for example, been applied to prevent water and soil pollution, especially when dealing with the leakage of fluids from chemical solution storage tanks. In the event of spillage, oil fences, sandbags, and other safeguards are used to contain the chemical solvents. In addition, frequent in-house checks, periodic checks by external parties, introduction of an alarm system for leaks, and the implementation of emergency response trainings have been adopted by the company to further ensure the prevention of environmental damages before they occur. Groundwater monitoring is an equally important part of the company’s strategy on pollution prevention, as is the reduction of chemicals used. More specifically, production processes have been improved through the design of wastewater treatment facilities, which help to reduce overall water consumption and effluent discharge.
Through its promotion of environmentally responsible and conscious activities, Toppan is able to gain a number of competitive advantages. It essentially secures the trust of its increasingly demanding customers through the improvement of the company’s environmental risk management structure and its promotion of environmentally friendly products. That way, Toppan can maintain its reputation and receive recognition for its efforts. Setting up initiatives that align with the precautionary approach ultimately helps the company to gain cost savings, though the introduction of strict standards and new equipment is usually related to high investment cost.

Source: Toppan Printing Co., Ltd. (please refer footnote 107 in annex)

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility

Environmental responsibility is especially the case for those companies that either rely on natural resources and a healthy environment and/or have a major impact on the environment, due to the nature of their production activities or the products and services that they produce. This includes companies and business associations with interests in energy, water, agri-business, forestry, fisheries, life sciences, mining, infrastructure, construction, transportation, waste management, chemicals, travel and tourism. At the same time, financial and professional services companies, especially in banking, insurance, fund management, auditing and accounting, and information technology and media companies, have a crucial influence on promoting more sustainable production and consumption patterns.

There are sound business arguments for companies to be proactively engaged in debate and action on environmental management and protection. These include the potential for cost savings, more efficient production processes, product and service innovation, access to new markets, improved risk management, better stakeholder relations and having a ‘seat at the table’ in policy dialogues on the appropriate mix of regulatory frameworks.

DiGi Telecommunications Sdn. Bhd. (DiGi) is an example of a company that recognizes the potential benefits of environmentally sustainable practices and has seriously undertaken a strong commitment to address them both within and without the company.

DiGi Telecommunications Sdn. Bhd. (DiGi), Malaysia

DiGi is Malaysia’s fastest growing mobile operator with a subscriber base of 7.1 million customers and revenues of approximately RM4.8 billion (approximately US$1.36 billion). DiGi has recognized that the ICT industry is considered a major producer of carbon dioxide (CO₂) emissions. In response, and in view of the expected increase in carbon emissions due to expansions of its business, DiGi decided to address its own impact on the environment by setting itself a challenge to halve its CO₂ emissions by

2012 from the estimated level of 130,000 tons. To achieve this, the company will invests between RM50 million (US$14 million) and RM100 million (US$28 million) between 2008 and 2011.

DiGi launched its *Deep Green Initiative* in 2008 to address the company’s impact on climate change, with the longer term vision of embedding sustainability into the business itself. The company is taking measures to address climate change by managing energy consumption and looking for more energy efficient ways to halve its carbon emissions to meet its target. To make this initiative successful, DiGi recognized that it must address the issue internally within all aspects of the business. The challenge was to ensure all 2,500 employees were aware and had the opportunity to be involved. The company launched a three week internal awareness programme throughout all of its offices in East and West Malaysia. The internal programme was first aimed at educating employees about climate change and showing them how they could contribute as individuals to address the issue. DiGi also wanted to make them aware of the ambitions the company had set and how it was a company-wide initiative in which each of them had a role to play as members of DiGi. This has been extended to include car pooling and office waste reduction through recycling and reuse.

Certain areas of the business were clearly targeted to ensure energy reduction and efficiency: namely the mobile network, IT operations, transportation and buildings. But in order for an initiative such as this to be successful at a company level, it was recognized that all divisions had to be involved and contribute. Therefore, while key energy effective initiatives came from the Technology and Facilities Management Divisions, the Human Resources and Finance Divisions were also involved to ensure that employee engagement as well as codes of conduct for suppliers and vendors was implemented. The Commercial Division was active in offering suitable product choices to customers, as well as ensuring external commercial activities were environmentally sound. Quarterly targets have been set and reporting and monitoring mechanisms have been put in place to track progress.

Any initiative for critical organizational change requires leadership support and Chief Executive Officer of DiGi has made himself the owner of the Deep Green Initiative. The support and buy-in of the DiGi Management Team, the senior leadership, who directly report to the CEO is also important. In addition, a cross divisional team was also established. They were charged with determining plans and subsequent actions each division had to do to contribute to the achievement of the goals set, as well as to lead initiatives to influence the mindset and behaviour changes among DiGi’s stakeholders. Fourteen climate representatives drive respective division’s/team’s contributions to the overall Deep Green Initiative. A four-person Corporate Responsibility Team spends 50 per cent of its time in coordinating and managing the Deep Green Initiative.

Externally, DiGi has activated innovative solutions to reduce its shared climate impact through interactions with external stakeholders including customers, suppliers and the community. The plans involved getting local NGO’s to help with environmental initiatives. DiGi also sought assistance from energy advisors and business partners. An expansion of the project, *Deep Green NOW* (Nurturing Our World), is an outreach initiative to bring greater awareness and understanding of climate changes to local communities and society. It focuses on educating and engaging young Malaysians in conservation and the protection
of natural resources. The Mangrove Treasures of Kuala Selangor is the first such project, which aims to build greater awareness of the vital protective properties of the Kuala Selangor mangrove belt and the unique ability of these carbon forests to store CO₂.

To date, DiGi has been on target to meet its medium and longer term objectives. By early 2009 it had reduced electricity consumption by 13.7 GWh, which converts to a CO₂ reduction of 7,159 tons. Eighty per cent of employees surveyed indicated a better awareness of the company’s commitment to address climate change.

Source: DiGi Telecommunications Sdn. Bhd. (please refer footnote 107 in annex)

The role and responsibilities of companies in ensuring environmental sustainability will vary from industry to industry, issue to issue, and geography to geography. Most companies, however, will be able to undertake actions in the following broad areas:  55

a) Understand and manage the company’s direct environmental impacts

Business should comply with regulations and voluntary industry standards where they exist. It is necessary to ensure that company environmental policies at the local level are aligned with national targets and international standards by carrying out environmental impact and risk assessments. Furthermore, companies can make investments in eco-efficiency, cleaner production processes, pollution prevention, and product life cycle analysis and so on including risk, cost and process management strategies. Share environmental management systems and transfer environmentally sound technologies along supply chains and with business partners.

Coca-Cola (Thailand) is a strong case to illustrate how a company has successfully managed its internal operations and been able to work in partnership with external stakeholders to champion this principle of United Nations Global Compact.

Coca-Cola (Thailand) Ltd., Thailand

In 2007, Coca-Cola Company became the first international corporation to set a goal “to return to communities and to nature an amount of water equivalent to what we use in all of our [products] and their production.” This means reducing the amount of water used to produce beverages, recycling water used for manufacturing processes so it can be returned safely to the environment, and replenishing water in communities and nature through locally relevant projects.

RAKNAM (means Love Water), initiated in Thailand in 2008, is an integrated partnership programme between Coca-Cola and its bottling partners, Ministry of Education, Ministry of Public Health, National Council on Social Welfare of Thailand, the Hydro and Agro Informatics

Institute (HAI), Office of the Royal Projects Board, Population and Community Development Association (PCDA), Royal Irrigation Department (RID), The Thai Red Cross Society, and WWF-Thailand.

The aim of the programme is to drive public awareness, education and action on sustainable water resource management in Thailand and to benefit hundreds of thousands of people across Thailand. The integrated programme covers four core areas: “Plant performance”, “Watershed protection”, “Community water initiatives” and “Awareness and action”. Through innovative water saving programmes and water conservation teams, Coca-Cola has successfully improved its water-use ratio by an average of six per cent over the past four years. All seven Coca-Cola bottling plants in Thailand treat wastewater so stringently that the water can be returned to nature at a level that supports marine life. The programme is helping to protect a number of local watersheds in Thailand, preserving precious ecosystems and improving the standard of life for surrounding communities through a wide range of initiatives carried out throughout the country.

It is also bringing a sustainable supply of clean water to communities in water-stressed areas, while educating communities on water resource management to strengthen effectiveness and sustainability. The Coca-Cola Foundation Thailand is working with the PCDA and the Ministry of Public Health to install three new water treatment and water pipeline systems and 60 rainwater storage tanks in eight districts of Khon Kaen province, bringing a long-term supply of clean water to over 30,000 villagers in 5,450 households. The Foundation is also working with the Medical Services Centre of Khon Kaen under the Ministry of Public Health to run training courses on water quality testing, water management and water treatment for the villagers. The Foundation is also providing seed funding to help the village committee maintain the water systems and keep it sustainable.

An integral part of the RAKNAM programme focuses on driving awareness and action in the wider community about water challenges thus empowering and aiding communities to develop locally relevant water resource management solutions. These initiatives cater to adults and young people and include educational outreach programmes creating nationwide networks to share knowledge and best practice on water management. Since 2007, for example, The Coca-Cola Foundation Thailand has been the title sponsor of the Thailand Community Water Challenge, a nationwide competition to recognize and promote excellence in community water management. In July 2008, raknam.com was launched as the first website in Thailand dedicated to driving awareness, educational activities and active participation among young people on water resource management. The website features interactive lessons, e-learning modules and a series of educational episodes in a “web TV” format.

Assisting local communities in the conservation of their natural resources serves to improve the reputation of the Coca-Cola system among local and international stakeholders. Investing in water projects thus not only brings sustainability benefits, but also helps the system to maintain good relations amongst local communities and other important stakeholders. A long-term multisectoral partnership movement on water resource management was created, linking government partners, international and local NGOs, educational institutes and thousands of local communities towards a common goal. Communities were actively engaged and
empowered with knowledge and resources on water management helping to ensure sustainability of activities and raise awareness on a key developmental issue.

Source: Coca-Cola (Thailand) Ltd. (please refer footnote 107 in annex)

b) **Invest in product and process innovation and transform business models**

A company may develop new products and services or transform business models to create new markets and business opportunities while addressing environmental issues. Energy companies can develop commercially viable renewable technologies for poor communities, and consumer goods companies can develop more energy efficient and cost effective products for these markets.

c) **Address the challenge of sustainable consumption**

Companies and business associations can be proactive in publicly addressing the issue of unsustainable consumption patterns and be part of the necessary shift in consumer values that must underpin the transition to more sustainable consumption.

There are several steps that the company could take to promote environmental responsibility. They would be the following:

- Re-define company vision, policies and strategies to include the “triple bottom line” of sustainable development – economic prosperity, environmental quality and social equity;
- Develop sustainability targets and indicators (economic, environmental, social);
- Establish a sustainable production and consumption programme with clear performance objectives to take the organization beyond compliance in the long-term;
- Work with suppliers to improve environmental performance, extending responsibility up the product chain and down the supply chain;
- Adopt voluntary charters, codes of conduct or practice internally as well as through sectoral and international initiatives to confirm acceptable behaviour and performance;
- Measure, track and communicate progress in incorporating sustainability principles into business practices, including reporting against global operating standards; and
- Ensure transparency and unbiased dialogue with stakeholders.

In following the above steps, the existence of appropriate management systems is crucial in helping the company to meet the organizational challenge. Key mechanisms or tools for the company to use would be:
• assessment or audit tools (such as environmental impact assessment, environmental risk assessment, technology assessment, life cycle assessment);
• management tools (such as environmental management systems and ecodesign); and
• communication and reporting tools (such as corporate environmental reporting and sustainability reporting).

**Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies**

Environmentally sound technologies should protect the environment, are less polluting, use all resources in a more sustainable manner, recycle more of their wastes and products and handle residual wastes in a more acceptable manner than the technologies for which they were substitutes. They include a variety of cleaner production process and pollution prevention technologies as well as end-of-pipe and monitoring technologies. Moreover, they can be considered total systems including know-how, procedures, goods and services and equipment as well as organizational and managerial procedures. Where production processes that do not use resources efficiently generate residues and discharge wastes, environmentally sound technologies can be applied to reduce day-to-day operating inefficiencies, emissions of environmental contaminants, worker exposure to hazardous materials and risks of technological disasters.

The key benefits of environmentally friendly technologies are the following:

• Reduce the use of raw materials leading to increased efficiency.
• Create new business opportunities and helps increase the overall competitiveness of the company.
• They can be applied to most companies with long-term economic and environmental benefits.

How can business promote the use and diffusion of environmentally friendly technologies? At the basic factory site or unit level, improving technology may be achieved by (i) changing the process or manufacturing technique, (ii) changing input materials, (iii) changes to the product and (iv) reusing materials on site.

Strategic level approaches to improving technology include the following:

• Establishing a corporate or individual company policy on the use of environmentally sound technologies.
• Making information available to stakeholders that illustrates the environmental performance and benefits of using such technologies.
• Refocusing research and development towards ‘design for sustainability’.
• Use of life cycle assessment in the development of new technologies and products.
• Employing Environmental Technology Assessments.
• Examining investment criteria and the sourcing policy for suppliers and contractors to ensure that tenders stipulate minimum environmental criteria.
• Cooperating with industry partners to ensure that ‘best available technology’ is available to other organizations.

Frangipani Langkawi Resort & Spa provides a good example of a successful company that has reinvented the hotel into a new environmentally sensitive resort with environmentally friendly business practices in almost every aspect of the services provided to customers. It is clear that the company garners cost advantages and has developed a unique position in the hospitality market though its environmental profile.

Frangipani Langkawi Resort & Spa, Malaysia

The Frangipani Langkawi Resort & Spa is a Malaysian owned stand alone resort which has won awards and recognition for its green practices. The present owner bought an existing 15-year old three-star hotel in 2005 and decided to upgrade it and turn it into a four-star, environmentally responsible hotel. He undertook renovation work with environmental conservation objectives and principles of responsible tourism in mind.

The principles of reduce, reuse, and recycle are environmental abatement factors that can contribute to the profitability of any business and it makes good business sense to implement such practices. The environmental abatement measures at the Frangipani include:

• Reducing consumption of water, energy, and virgin materials;
• Sorting and recycling domestic renovation and commercial waste;
• Harvesting rainwater; and,
• Organic food production.

Actions taken to mitigate environmental degradation at the resort took many forms. Many of the technical changes were relatively easy and resulted in cost savings. These included replacing 338 40-watt bulbs with 8-watt energy-saving bulbs in rooms, public toilets, restaurants and staff quarters. Jugs of water and glasses are used instead of plastic bottled drinking water. Leftover soap from guest rooms is used as cleaning agents in toilets. Rainwater is used for flushing toilets. Old bathtubs are used as composting bins. Recycled wood and tree trunks are used as signage. Plastic, paper, glass and aluminium cans are now all sorted for recycling. Some types of food waste are used as feed for poultry and fish in the farm and fish pond. Other garden and kitchen waste is composted, reducing the need for fertilizers. Natural lemongrass is used as a mosquito repellent. Moreover, during the renovation of the hotel a number of innovations helped to protect the environment. Roofs and balcony floors were constructed with a slope to ensure better flow of water to prevent puddling. Grass is grown on flat roofs to keep rooms below cool, resulting in less energy consumption needed for airconditioning. In public spaces, natural ventilation is used wherever possible.
The hotel also uses the environment as a natural resource reducing the need for chemicals. Guppy fish are reared in ponds to control mosquitoes. Coconut trunks are used as termite traps. Local wetland is used to further treat grey water from septic tanks where aquatic plants like water hyacinth and water spinach absorb phosphate, ammonia and urea from the water.

It is seen as vitally important to involve staff in efforts to be environmentally responsible and base some rewards on environmental performance. An important part of the approach is also to share information about the environment and the hotel’s facilities with guests. Educating local communities, leaders, schools and local government has also been important as well as engagement with the food, tourism and hospitality industries. This creates partnerships that make a difference in Langkawi specifically and the industry in general.

Implementing environmental conservation practices has produced financial and commercial benefits for the Frangipani Langkawi Resort and Spa. Some of these benefits have translated into a 50 per cent savings in water charges (US$13,000 annually), a 30 per cent savings in electricity charges (US$30,000 annually); nine tons of recyclables recovered in one year (worth more than US$1,000); annual savings from organic food production (US$1,500); and, 2,400 kilograms of compost produced with annual savings in excess of US$1,500 annually.

The commercial benefits go further than simply cost savings, however. Engaging in environmental mitigation and conservation activities is seen as part of the brand and reputation of the resort, leading to its competitive advantage, better customer retention, trust from the local community and better relationship with a range of stakeholders. More broadly, the conservation activities have brought about a better awareness of environmental issues and benefits among employees, customers, business partners, communities and local government.

Source: Frangipani Langkawi Resort & Spa (please refer to footnote 107 in annex)

Another example comes from City Developments Limited (CDL). It views its role as more than just a builder of living spaces, but also a developer of lives and communities. It believes that a successful corporation is not founded on business achievements, but also on the positive role it can play in the community and the contributions it can make towards environmental sustainability. It has become the only developer in Singapore to be conferred the Green Mark Champion Award by the Building and Construction Authority in recognition of its industry captaincy in sustainable development in 2008. CDL is a good case to illustrate how a company can successfully develop eco-innovation and incorporate it into Singapore’s first Eco-Condominium. CDL has also been able to effectively integrate new systems and technologies into suppliers, contractors, and consultants along its supply chains.
City Developments Limited (CDL), Singapore

CDL is a listed international property and hotel conglomerate involved in real estate development and investment, hotel ownership and management, and facilities management, as well as the provision of hospitality solutions. As a property pioneer in Singapore, CDL has over 22,000 homes. It is also one of the biggest landlords in Singapore with over four million square feet of leasable office, industrial, retail and residential space. CSR vision of CDL is “to be a responsible corporate citizen that believes in creating value for stakeholders, conducting sustainable business practices, caring for the community and protecting the environment”. In addition, CDL has been highly committed to actively influencing its stakeholders on environmental responsibility via diverse and sustainable initiatives. In so doing, it recognizes the role it plays in promoting environmental responsibility both within and outside the business.

CDL has adopted a three-pronged holistic life cycle approach as part of its corporate green strategy to develop quality and environmentally-sustainable properties, manage properties in a cost efficient and energy-efficient way, and influence its stakeholders on environmental conservation. It is committed to developing green properties and invests between two per cent and five per cent of the construction costs of its development to green design and technological enhancements. The returns for these investments are reflected in the reduced use of natural resources, financial savings for the developer, homebuyers and tenants, and the potential to enhance the capital value of the development. CDL has been at the forefront of incorporating eco-innovation into its developments. It developed Singapore’s first Eco-Condominium, Savannah CondoPark, in 2002, as a prototype of green development, and incorporated features such as:

- photovoltaic panels to power lights and water-heaters in the club house;
- a pneumatic waste disposal system for odourless and vector-free collection of domestic waste;
- carbon monoxide sensors for the car park to activate the ventilation fans;
- green landscape features such as an ecological pond, transplanted trees and a green retaining wall;
- designated recycling systems; and,
- energy-saving light fittings and air-conditioning systems.

Since then, the incorporation of many of these green features, along with other green innovations, has become standard in all CDL’s new residential projects. In addition, CDP recognizes that the effective diffusion of environmental technology is also dependent on having effective management in systems in place and encouraging improved environmental performance along supply chains. In 2003, CDL was the first private property developer in Singapore to be awarded the environmental management system standard, ISO 14001, for property development and project management.

To help encourage suppliers and consultants to share the same level of commitment and performance, the CDL Projects Division established the CDL five-Star EHS Assessment System for all CDL construction sites. Moreover, all contractors must undergo quarterly inspections and audits conducted by an independent auditor who appraises and grades the
contractors. After each audit, CDL facilitates peer learning and information sharing between all contractors and consultants to encourage better results in the next review. CDL has also successfully influenced its consultants and contractors to change their work processes and become more eco-conscious. With CDL’s encouragement and support, more than 50 per cent of its key consultants have voluntarily obtained their ISO 14001 certifications. The supplier audits have led to significantly improved environmental improvement over the years.

The development of environmentally friendly technologies and the implementation of systems to support the company has added value to the business. There is a strong business case for embracing green developments and technologies. CDL recognized that it needed to act in a voluntary and proactive way to stay ahead of inevitable regulatory changes. Mitigating potential business risks and seizing the opportunity to create an innovative green product ended up being a win-win for the company, the customer, the environment and society in general.

Source: City Developments Limited (please refer to footnote 107 in annex)

5. Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Corruption can take many forms that vary in degree from the minor use of influence to institutionalized bribery. Transparency International’s definition of corruption is “the abuse of entrusted power for private gain”. This can mean not only financial gain but also non-financial advantages. Corruption is now recognized to be a major hindrance to sustainable development, with a disproportionate impact on poor communities and is corrosive on the very fabric of society. The impact on the private sector is also considerable – it impedes business growth, distorts competition and represents serious risks. Corruption is also very costly for business, with the extra financial burden to the costs of doing business in many parts of the world. There is now clear evidence that in many countries corruption adds upwards of 10 per cent to the cost of doing business and that corruption adds as much as 25 per cent to the cost of public procurement. This undermines business performance and diverts public resources from legitimate sustainable development.

Regardless of what form a corrupt transaction may take, there are obvious legal risks involved. Not only are most forms of corruption illegal where it occurs, but also it is increasingly becoming illegal in a company’s home country to engage in corrupt practices in another country. In developing countries and emerging markets, where the opportunity for corruption has been rife because of weak law and regulation, corruption has become an issue of significant political importance and there is growing determination to act and to take those accused of corrupt practices to court. In addition, companies whose policies and practices fail to meet high ethical standards, or that take a relaxed attitude to compliance with laws, are exposed to serious reputational risks. It is of critical importance for
a company to be able to quickly quash any unfounded allegations by demonstrating that it acts in a transparent manner and has in place policies and procedures designed to prevent corruption.

Corruption also erodes staff morale. If a company engages in or tolerates corrupt practice, it will soon be widely known, both internally and externally. Unethical behaviour erodes staff loyalty to the company and it can be difficult for staff to see why high standards should be applied within a company when it does not apply in the company’s external relations. Internal trust and confidence is then eroded.

The rapid development of rules of corporate governance around the world is also prompting companies to focus on anti-corruption measures as part of their mechanisms to protect their reputations and the interests of their shareholders. Their internal controls are increasingly being extended to a range of ethics and integrity issues and a growing number of investment managers are looking to these controls as evidence that the companies undertake good business practice and are well managed.

The adoption of the tenth principle commits businesses not only to avoid bribery, extortion and other forms of corruption, but also to develop policies and concrete programmes to address corruption. The Global Compact suggests businesses to consider the following three elements when fighting corruption and implementing the tenth principle:

- **Internal**: As a first and basic step, introduce anti-corruption policies and programmes within their organizations and their business operations;
- **External**: Report on the work against corruption in the annual Communication on Progress; and share experiences and best practices through the submission of examples and case stories;
- **Collective**: Join forces with industry peers and with other stakeholders.

China Development Bank (CDB) is a very successful case of a business that works on both its internal systems as well as in cooperation with external agencies and other stakeholders in preventing business corruption.

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**China Development Bank (CDB), China**

Since its inception in 1994, CDB has continually supported the development of China’s infrastructure and its industries. The Bank’s main business development and lending targets include: electricity, roads, railways, petroleum and petrochemicals, coal, post and telecommunications, agriculture, forestry and water conservation, and public infrastructure. CDB recognizes that corruption is a major risk for its business operations and recognizes its role in developing systems that can tackle extortion, bribery and other forms of corrupt activity in the financial services sector. Due to its large presence in China, CDB felt it should take responsibility in combating corruption, a universal challenge confronted by every company, and to lead by example. Four parallel inspection lines make up a supervision system in preventing corruption:
• on-site inspection to oversee breaches;
• off-site supervision to monitor staff integrity and self-discipline;
• a Department of Compliance responsible for the observance and compliance of laws and regulations; and,
• supervision by external agencies and the general public.

CDB’s anti-corruption system is composed of more than ten anti-corruption mechanisms. The system has strict requirements on staff integrity and self-discipline, professional ethics, and prevention of conflict of interests for all staff in their work and business activities. A risk-spot supervision system, which is a series of policy documents supervising the processes to identify risks, works in conjunction with the anti-corruption system. These policies clearly define corruption risks related to authority in four areas, namely loan management, financial operations management, personnel management, and procurement. The policies list in detail the risk responsibilities of all these posts according to business flow.

CDB formed joint supervision systems and mechanisms with local supervision departments, business departments of CDB, and various external agencies. It transformed the government supervision function into an external supervision mechanism of CDB to promote its business development, strengthened its own internal capacity and improved the risk control mechanism. The joint supervision system became the first of its kind within China’s financial sector to introduce external supervision of its own initiatives. In 2007, all branches of CDB implemented the joint supervision system.

To counter money laundering, CDB established a working agency specifically for anti-money laundering and set up specialized offices at its headquarters and branches headed by bank leaders. Following supervision requirements, it developed the transaction monitoring system, drafted relevant operation manuals, and issued a series of account management documents to ensure the corruption prevention systems are followed closely and understood by all staff members of the bank. CDB achieved 100 per cent participation in employee training.

In addition to having internal and external mechanisms to fight corruption, CDB also works with other stakeholders in a collective approach to fight corruption. In 2006, CDB established a social supervision system to openly handle various complaints from the public regarding the safety of its credit assets. This system also served as another line of defence against risks. It also reflected its attitude to be responsible for the state and society at large while demonstrating its concepts of transparency. According to CDB, these actions received a positive social response. The following year, a two-tier complaint system was established opening the system up in order to expand the bank’s capacity to handle public complaints, while also guaranteeing the right to information of the public.

Establishing the various corruption prevention systems was not only crucial to the bank internally, but served as a benefit to the public as well. The success of CDB’s corruption prevention systems has gained recognition. Government officials have praised the system and Chen Yuan, the Chairman of CDB, was invited to join the anti-corruption working group of the United Nations Global Compact. According to CDB, the bank has taken a leading role in advocating the fight against corruption.

Source: China Development Bank (please refer to footnote 107 in annex)
6. Conclusion

Many businesses realize that local environmental degradation, global climate change, poor labour standards, inadequate health and education systems, and many other social ills can add directly to the costs and risks of doing business domestically and globally. They can increase operating costs, raw material costs, hiring, training and other personnel costs, security costs, insurance costs and the cost of capital. They can create both short-term and long-term financial risks, market risks, litigation risks and reputation risks. Companies that understand and address these challenges can improve their risk and reputation management, reduce their costs, improve their resource efficiency and enhance their productivity.

While governments must carry primary responsibility for achieving the well-being qualifications of a country, it is increasingly in the interest of business to play a proactive role in the solution rather than be a part of the problem. Productive and competitive companies strongly believe that they will benefit from the existence of open, rule-based, predictable and non-discriminatory trading and financial systems, and a non-corrupt and well-governed economy. Over the past decade, many companies in Asia have thus become more aware that a failure to encompass economic, social and environmental responsibilities into their business practice is likely to undermine their business success at both the national and international level. Businesses become more engaged in many areas of national development and have a growing stake in the future progress of their country. The United Nations Global Compact offers principles and guidelines for business in undertaking these responsibilities. The next chapter will move from ‘talk’ to ‘action’ and introduce ways businesses can practically integrate CSR into their strategies and practices.
CHAPTER III
EMBEDDING CSR INTO BUSINESS STRATEGIES AND PRACTICES

1. Introduction

The former chapter provides evidence confirming that CSR can be practically implemented within the Asian context. Thus, CSR in Asia has moved from ideology to reality and become an increasingly important aspect for how businesses conduct themselves in Asia today. However, while many businesses have awakened to this demand, they are much less clear as to how to best proceed with CSR. In fact, many common CSR business actions are neither strategic nor operational, but often tend to be “cosmetic” in nature and overwhelmingly related to public relations and media campaigns. While many businesses choose to construct their images based on surface issues of CSR, this often ignores any actual substance and proves ultimately unsustainable. Furthermore, the centerpieces of their CSR actions are often presented in glossy CSR reports that showcase companies’ social and environmental good deeds. There is nothing wrong with these types of reports, per se, as they show business’s accountability through reporting to some extent, and are better than simply doing absolutely nothing to express a company’s social responsibility. However, the reports rarely present any strategically coherent framework for CSR actions. These types of “cosmetic” reports often simply share aggregate anecdotes about uncoordinated initiatives to demonstrate a company’s social responsibility by telling what a company has done to reduce pollution, waste, carbon emissions, energy use, and so forth. Philanthropic initiatives are typically described in reports in terms of dollars or volunteer hours spent, but rarely in terms of any actual impact. Some companies do seek ways to go beyond these anecdotal activities, but the practical guidance for integrating social and environmental considerations more effectively into core business operations and strategy remains unclear to most.

Although ethical concerns and a moral imperative, as explained in Chapter I, are seen as absolute mandates for any business to behave in a more responsible manner, in reality a company needs to responsibly balance competing values, interests, and costs of doing business. Business needs to weigh one social benefit against another, environmental benefits against social returns, or even against financial costs. Ethical and moral principles do not provide practical guidelines for business on how to allocate its budgets to include, for instance, subsidizing funds for disadvantaged children, investing in facility renewals, developing new innovations for future competitiveness, and providing dividends to its shareholders. This particular issue is also closely linked to another in that a company is often under pressure to make sure all actions it undertakes are responsible to all parties concerned by its business operation. A stakeholder approach is often significant as it

helps a company know the needs of every party concerned with the company’s operations and seek ways to satisfy all of their needs. However, stakeholders may not fully understand a corporation’s limitations or the trade-offs business must take to make everyone ‘happy’, nor does the intensity of the intervention of some stakeholder groups on a particular issue necessarily signify the importance of an issue to all parties concerned. Stakeholder satisfaction is yet to be deliberately balanced with other considerations. Furthermore, short-term defensive reactions to issues when pressured by specific parties may end with an ongoing public relations campaign with minimal value to society and no long-term benefit for the business. Businesses therefore need a holistic framework or guidelines to help them practice CSR strategically and create sustaining benefits to the company.

When conducted with no clear strategic framework, CSR practice often results in a poor hodgepodge of uncoordinated CSR and philanthropic activities, disconnected from the company’s strategy. It neither makes any meaningful social impact nor strengthens the firm’s long-term competitiveness. Internally, CSR practices and initiatives are often isolated from operating units if no coordinating mechanism has been designed and established during the initial CSR planning stage. Externally, the company’s social impact becomes diffused among numerous unrelated efforts, each responding to a different stakeholder group or corporate pressure point. The consequence of this fragmentation is a tremendous lost opportunity, and the power of businesses in creating meaningful social impact is unfortunately dissipated.

Successful corporate responsibility requires an integration of CSR into business’s strategy as well as its in-process operations. Business should be able to deliberately identify, prioritize, and address the social causes that matter most, or at least the ones on which it can make the highest impact to society and business’s future. As explained in Chapter I, business and society are interdependent, and any decision made must benefit both sides. If either business or society pursues actions that benefit the interests of one side at the expense of the other, it will find itself on a difficult path. This means CSR practice should seek a balance between business and social benefits. Companies also need to balance their long-term objectives against any short-term costs. Thus, to achieve these ends, a company needs guidelines to balance all of these concerns. A strategic framework for CSR design and implementation consequently helps a company in planning and executing its CSR practices. The framework should align the company with the dynamic demands of the business and social environment, as well as the confluence of stakeholder expectations.

Figure 1 below presents a framework offering guidelines for embedding CSR into business strategies and practices. It is composed of three stages: (1) designing, (2) executing, and (3) mainstreaming. The three stages include eight steps: (1) preparation, (2) CSR assessment, (3) stakeholder engagement, (4) development of CSR plan, (5) implementation, (6) monitoring and evaluation, (7) institutionalization, and (8) communication. Each step is discussed in greater details in the following sections.

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Figure 1. Framework for embedding CSR into business strategies and practices

1. Preparing for CSR embarkation
   - Raising CSR awareness inside the company
   - Assembling a CSR team

2. Conducting CSR assessment
   - Understanding corporate norms and values
   - Auditing current CSR norms, standards, initiatives and practices

3. Stakeholder engagement
   - Identifying key stakeholders and their concerns
   - Planning for engagement process
   - Exercising the engagement process

4. Developing a CSR-integrated strategic plan
   - Establishing a vision for CSR and working definition
   - Benchmarking competitors’ CSR practices
   - Crafting CSR strategies

5. Implementing CSR-integrated strategic plan
   - Building CSR commitments
   - Identifying focal point and developing integrated decision-making structure
   - Preparing CSR operational plan
   - Mobilizing internal staff

6. Monitoring and evaluating CSR plan
   - Setting up targets and performance measurements
   - Verifying results
   - Evaluating progress
   - Reporting performance

7. Institutionalizing CSR
   - Internalizing CSR into organizational systems as well as corporate culture and values

8. Communicating CSR commitments and performance

- Continuous stakeholder dialogue and engagement
- Internal stakeholder consultation
2. Preparing for CSR embarkation

2.1 Raising CSR awareness within the company

CSR practices should be initiated with a conviction by those who are implementing it. Members in the company should be convinced that CSR is a necessary path to follow. CSR implementation often fails when companies attempting to align their business practices in a more responsible manner lack a real conviction to pursue a CSR initiative. They are neither aware of any external pressures or demands for responsible business practice, nor see the business advantages of practicing CSR. Thus, they lack any real motivation to continuously do good for society and the business itself.

All cases illustrated in the previous chapter emphasize one key foundation of good CSR practice: it must begin with a belief that CSR is the right way for a company to go. A successful CSR practice should begin voluntarily with people inside a company, given that they have a clear understanding of the necessity and significance of responsible business conduct. In fact, a company may become increasingly sensitized to outside demands and pressures for CSR issues through the influence of economic, social or environmental drivers when a company anticipates or responds to a risk associated with the societal impact of its particular business practice.58 A good example of this is Wilmar International’s response to its unintentional involvement with land rights and human rights issues in Indonesia, as discussed in Chapter II. Whereas with the case of Toppan Printing, the company adopted a precautionary approach to environmental responsibility to prevent its business from committing any acts that were environmentally hazardous and could potentially harm its reputation. This is a more proactive approach to risk management. Economic incentive is a key driver for a company to realize the benefits of CSR. For example, the Frangipani Langkawi Resort & Spa, implemented environmentally friendly technologies to not only help the company gain a competitive edge in the customers’ eyes as it promotes its image of environmental conservation, but also to save 50 per cent on its water charges and 30 per cent on electricity.

This also links to an awareness of individuals within a company which appears to be a critical driver and key foundation for continuous CSR practices. Some research highlights the CEO’s role in orienting the ethical norms of the company59 as well as the presence of employees’ values in the workplace.60 This means CSR awareness may

come from the top-down in the sense of top executive awareness influences on CSR integration into corporate strategy and implementation. Examples of this top-down approach include SS Steel whose concern for gender discrimination came from the executive's value; Brandix whose Board of Directors decided to implement the "zero" child labour policy; and Frangipani Langkawi Resort & Spa whose owner incorporated environmental objectives into the hotel renovation process. On the other hand, CSR awareness can also come from the bottom-up when awareness by employees and workers serve to induce their company to include CSR practices. Bottom-up examples include COSCO, where employees played a critical role in developing the Collective Contract of COSCO Group to improve the coordinating mechanism for labour relations and protection of employees' interest; and DiGi, where a three week internal awareness programme was launched to ensure all 2,500 staff members were aware of and preferred to be more engaged with the company's mission in environmental responsibility.

In sum, the starting point for any CSR awareness campaign can be characterized as either reactive, resulting from external environmental pressures, or proactive, when the personal values of an individual or group inside a company gain increasing weight and push for an adoption of responsible practices driven by a sense of personal morality, inspired by managers or employees' socially oriented personal values. Notably, in general, no company – big or small – is likely to make much of a mark with any CSR initiative without recognition from its boards of directors, CEO, senior management or owners that some sort of CSR-related problems, opportunities or challenges exist. This awareness provides fuel for proceeding with the formulation of a CSR strategy and implementation. Awareness needs to be carried forward and put into action by a decision to embark on designing a CSR programme.

2.2 Assembling a CSR team

A CSR team should be assembled early on in the CSR process. As CSR is in fact a company-wide initiative and requires support from top management, the CSR team should include representatives from the board of directors, top management or owners, as well as volunteers from various units within the company that will be affected by or involved in CSR issues. Other representatives could be senior staff from human resources, environmental services, health and safety, community relations, legal affairs, finance, marketing and communications. Front-line staff in these areas and any other personnel who may become key players involved in implementing the CSR approach a company eventually develops should also be on the team. As the work of the team progresses and a better understanding of the implications of CSR emerge for a company, it is quite possible that the team will be able to encourage employees at all levels to contribute their time, energy and ideas into the corporate CSR initiative.

The DiGi Telecommunications case, discussed in Chapter II, provides a good example of how to assemble a CSR team. In the case of DiGi, the CEO was designated as the owner of the Deep Green Initiative. Involvement of the CEO as CSR champion sends a clear signal that DiGi considers CSR to be important. The DiGi Management Team, who directly report to the CEO, is deeply involved in the initiative, and a cross divisional team was also established. The team determines plans and subsequent actions that each division is required to perform to contribute to the achievement of the corporate CSR goals. In addition, a four-person Corporate Responsibility Team spends 50 per cent of its time in coordinating and managing the CSR Initiative.

Even in a case where there are no members of the board of directors on the team, it is still vitally important for the team to be directly accountable to senior management and, ultimately, the board. This acknowledges that effective CSR implementation requires integration of the principles of CSR into the company’s central values and activities. Engaging people at all levels of the company from the very beginning will help ensure the approach a company ultimately takes to CSR will resonate and be supported throughout the company.

However, even when many companies have an awareness created and a CSR team established, they have been unsuccessful in transforming their inspiration into action because of a lack of clear guidance on how to take their passion to the next step. In fact, CSR conduct needs to be implemented in a systematic manner which is in harmony with the company’s mission and sensitive to the business environment and risk profile, as well as the nature of business’s operating conditions. In addition, any CSR approach should be phased into business conduct by focusing on both short- and long-term priorities of the company in accordance with resource constraints. On the other hand, a more comprehensive and systematic approach can be pursued when resources and overall priorities allow. The CSR approach of any business can be incrementally or comprehensively implemented depending on the specific configuration of the company. The next sections will elaborate on the necessity of a CSR assessment before deciding how corporate responsible conduct should be executed in the company.

3. Conducting CSR assessment

If the top executives of a company do not have accurate information about the contextual factors influencing the company in relation to CSR conduct and have no clear snapshot where a company currently is with respect to CSR activity, it is unlikely that they will be able to make informed decisions about how to move forward in the right direction. Intelligence gathering in the form of a CSR assessment can save a company from launching an ineffective CSR approach or heading in a direction that is not sustainable in business terms. A systematic assessment is needed and should seek a better understanding of the nature of the problem, opportunity or challenge and the significance of CSR for the business. The assessment should help a company identify the main areas/issues of risk and opportunity, and culminate in a thorough gap analysis. It can also act as a reminder of existing legal requirements. The assessment will provide essential information not only for identifying
CSR priorities but also for advocating the approach within and without the company during later stages of the process.

An assessment should seek to gather and examine relevant information about the company's products, services, and activities in relation to CSR actions. A comprehensive CSR assessment should provide an understanding of the following:

- Corporate norms and values;
- Internal and external drivers motivating the company to undertake a more systematic approach to CSR;
- Key CSR issues that are affecting or could affect the business;
- Key stakeholders who need to be engaged, and their concerns;
- Current CSR-related standards, initiatives and practices;
- Legal requirements; and,
- Resource and budgetary implications.

While this is certainly not an exhaustive list of what to include when conducting a CSR assessment, it does provide a base from which any company can review the full range of its operations through a CSR lens. It is important to keep in mind that as long as the company does a thorough appraisal of its current and potential activities from a CSR perspective, it will have a comprehensive overview of issues related to CSR. The following sections will elaborate on two components of a CSR assessment: “understanding corporate norms and values” and “auditing current CSR-related norms, standards, initiatives and practices”.

### 3.1 Understanding corporate norms and values

It especially important to keep in mind that organizational values and norms are likely to bring about some implications for the CSR approach a company will ultimately undertake. Corporate norms and values play critical roles as prerequisites for any company to actively embark on CSR. In general, corporate norms and values guide behaviours and decisions within the company. They support a company’s efforts to fulfil its vision and goals. This implies that, in order to ensure its continuity, a CSR initiative must in turn align with the values, norms, and mission of the company. For instance, as explained in Chapter II, CDL had a vision to become a responsible corporate citizen and conduct sustainable business practices, and as such, publicly stated its vision was “to maintain industry leadership in innovation, product quality, service standards, profitability and corporate social responsibility”. CDL’s core values view CSR as an integral aspect of its business operations. One area of its commitment is to environmental sustainability; CDL’s corporate values are highly committed to eco-friendly ways of managing its business. Their ‘green’

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values shape the way CDL designs properties, selects contractors/suppliers, and develops its eco-innovations. One example was that CDL developed its 5-Star environmental, health and safety assessment system under which all contractors must undergo quarterly inspections and audits conducted by an independent auditor to appraise and grade them on a scale of one to five stars. The CDL case shows the positive effect of corporate norms and values on a company's CSR initiative.

Thus, the first step of CSR assessment demands a good understanding of the corporate vision and values and their relationship to the company’s core business practices. In order to understand corporate values, a company may need review existing organizational documents. Existing mission statements, corporate charters, policies, codes of conduct, reports, websites and other operating documents are logical candidates for review. External documents associated with programmes or initiatives which the company subscribes to may also need revisiting. These would include sector-wide business standards, regulations, or guidelines. It may be that the existing mission statement, policies or codes address worker relations, customer satisfaction or environmental protection in some regard. If this is the case, it can be a good start for CSR embarkment. It is also useful to explore why these items were developed and to learn from them (or at least acknowledge that they are CSR-related components within the company).

On the other hand, an absence of any reference to sustainability or commitment in these documents may indicate that a culture change may be required to effectively integrate CSR into business activities. In many cases, companies may need to create new norms and values with respect to CSR by replacing existing norms and values that do not encourage CSR initiation. For example, Coca-Cola recently adopted a new corporate value of sustainable water use and converted the value into its RAKNAM programme which incorporates water saving and water conservation in the initiative. The new value perfectly fits with the nature of the beverage business while also serving the company’s long-term goals. To successfully incorporate CSR into long-term strategies and business operations, a company must transition from a target-driven to a value-driven culture.65 Thus, companies must build on their corporate values to create an organizational culture that is receptive to change and can sustain a CSR strategy over the long-run.

3.2 Auditing current CSR-related norms, standards, initiatives and practices

The objective of an audit of current CSR-related norms, standards, initiatives and practices is to identify company's profiles related to five key CSR aspects:66 (1) social and (2) environmental dimensions and impacts of company activities, (3) corporate governance issues, (4) corporate commitment to sustainability, and (5) the societal dialogue process.

Many companies may find that they have already been engaging in CSR activities without necessarily identifying them as such. For example, a company may have in place environmental management systems, health and safety control, employee educational advancement programmes or community outreach initiatives. These are likely to become important building blocks in understanding the current status of the company’s approach towards CSR.

When assessing corporate norms and values, it is once again useful to examine existing mission statements, policies, codes of conduct, principles, and other operating documents, as they often provide a good beginning for a CSR audit. In coupling with documentary analysis, business operational processes need to be assessed to determine if any of a company’s activities are in line with the CSR principles explained in Chapter II. This should include, but is not limited to, human resource management, physical working conditions, production processes and waste management. As noted earlier, a CSR approach is not a compliance-based activity. It is all about the voluntary choices a company makes to improve its performance and the way it relates to society. Given this condition, a required step is to ensure that the business already respects existing laws and regulations, with regard to such things as governance, taxation, bribery, labour, or the environment. As explained, a good CSR strategy and the company’s reputation can be quickly damaged if it is found to be in breach of basic laws. This means, in addition to a review of internal documents, a review of local rules and regulations that may affect business operations should be also considered.

In addition to thoroughly examining internal operations for CSR-related challenges and opportunities, it may be useful for a company to examine the activities of its business partners (particularly supply-chain partners), since their misbehaviour can also significantly and negatively affect the company. This was most certainly the case with Nike when its suppliers’ misconduct seriously damaged Nike’s own reputation. In coupling with the paper-based review, a consultation with key managers who represent key business functions inside the company and with CSR and industry experts can offer further insight. Another practical CSR audit methodology relies on dialogue with various interested and knowledgeable stakeholders. This methodology appears especially relevant, as CSR auditing that engages stakeholders through dialogue can in turn help the company not only to identify CSR priorities, but also to help build trust, identify commitment, and promote cooperation among stakeholders and corporations. Nonetheless, a question may be raised regarding who should be engaged and how? This leads to the next component of CSR design: stakeholder engagement.

Chapter I explains that business is seen as an integral part of society. A business does not exist in isolation as it relies on a multitude of relationships with customers, employees, suppliers, communities, investors and more. Stakeholders are those who have the potential to produce a critical effect over the business operation and cause either success or failure of a company. Engaging stakeholders in the CSR design process is thus essential. A company needs to hold discussions with key external stakeholders about CSR. Mapping out the interests and concerns of stakeholders against the company’s operations can potentially reveal both opportunities and problem areas. Indeed, many leading companies now see stakeholder engagement as central to the task of identifying issues that are most material to them. This section below covers the issues a company needs to know with regard to stakeholder engagement.

Stakeholder engagement comprises the formal and informal ways of staying connected to the parties who have an actual or potential interest in or effect on the business. They can include shareholders, employees, non-governmental organizations, business partners, lenders, communities, regulators, consumers, or government. Engagement implies that business should understand the views of its stakeholders and takes them into consideration, is accountable to them when accountability is called for, and uses information gleaned from them to drive business development. Stakeholder engagement often spans a continuum of interaction that reflects the degree of influence stakeholders have in business operations and decision-making. At one end, businesses might simply inform stakeholders of their plans while at the other, stakeholders are deeply involved from early on in the decision-making process. In between are varying degrees of consultation and participation. However, stakeholder engagement should include, at a minimum, a genuine effort to understand stakeholder views, and assess how the company can best hear and respond to their perspectives.

Some key reasons to verify the significance of stakeholder engagement are: social capital, risk reduction, and business innovation.

• Building social capital: As explained in Chapter I, business relies on several types of capital for its operations. Financial capital is obtained from banks and investors; natural capital may be purchased in the marketplace; and human capital can be acquired through employment. But social capital must be built up. Social capital refers to the company’s relationship with society – how it is perceived and regarded. In today’s business environment, where reputation has become essential to business’s success, social capital can be no less important than other forms of capital. Social capital is also a foundation for a company’s ‘licence to operate’. It is essential to brand value too. Building social capital helps to improve access to information, enhance influence, and

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68 Some parts of this section are drawn largely from Hohnen, Paul (2007). Corporate social responsibility: An implementation guide for business.
can be given the benefit of the doubt should an unexpected problem arise. However, while it is forged slowly over time through positive interactions with stakeholders, it can be quickly destroyed when trust is broken.

- **Reducing risk:** Stakeholder engagement can provide early warning signs of the following: service or product concerns of customers; safety; human rights and environmental concerns of communities; and, governance concerns of shareholders, among other issues. With a stakeholder engagement process in place, a company will have a means of detecting and effectively responding to stakeholders’ concerns promptly, before they become bigger problems. In this respect, CSR engagement can provide a type of risk mitigation for business.

- **Driving for business innovation:** Businesses that cultivate a culture of learning and transparency in relation to stakeholders will have an edge in the increasingly innovative-driven world. Stakeholder engagement can improve information flow, identify business opportunities and generate new ideas. Some companies use the engagement process to identify ideas for new products and markets.

Next, it is important to examine how a company goes about exercising stakeholder engagement and getting all of the concerned parties involved. The following sections outline steps which can help to ensure an effective stakeholder engagement process.

### 4.1 Identifying stakeholders and their concerns

Stakeholder identification is concerned with defining which stakeholder categories the company should cooperate with and include in its CSR strategy. Stakeholders are individuals or organizations that have one or more interests in any activities and decisions of a company. The location, scale and nature of business operations will often determine who should be considered as stakeholders. The primary objective is to understand the continuously changing objectives, values, demands, and expectations of those people/groups with stake in the business.69

To identify stakeholders, a company can ask some guiding questions:

- To whom do legal obligations exist?
- Who might be positively or negatively affected by the organization’s activities?
- Who has been involved when similar issues needed to be addressed?
- Who can help the organization address specific impacts?
- Who would be disadvantaged if they were excluded from the engagement?
- Who in the value chain is affected?

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Stakeholders can also be identified on the basis of the categorization as shown in Table 2, developed by CSR Asia. It is often a good idea for a company to brainstorm all of its potential stakeholders. Some stakeholder groups will appear in more than one category.

Table 2. Categories of stakeholders

<table>
<thead>
<tr>
<th>Broad type</th>
<th>Category</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reflective</td>
<td>Interest</td>
<td>People or organizations that have already identified themselves as company’s stakeholder by expressing an interest in the company or concern about its activities.</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Impact</td>
<td>Stakeholders who are likely to have a big impact on the company’s decision-making and potential performance (such as government regulators, shareholders).</td>
</tr>
<tr>
<td></td>
<td>Inclusive</td>
<td>Stakeholders who are identified to make sure that the company’s coverage of organizations, issues and views is complete and ensure that all social expectations are covered.</td>
</tr>
<tr>
<td>Strategic</td>
<td>Influence</td>
<td>Stakeholders who are able to influence other stakeholders and the company’s own management and are therefore important in helping to attain objectives.</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Informative</td>
<td>Stakeholders who have particular knowledge about the company, industry or issues that are central to performance now and in the future (e.g. academics)</td>
</tr>
<tr>
<td></td>
<td>Incisive</td>
<td>Stakeholders who are themselves highly informed leaders to the extent that they are able to identify and comment on future trends, priorities and critical events (e.g. other business leaders).</td>
</tr>
</tbody>
</table>

Source: Guidance manual for training of trainers course on implementation of the Global Compact, developed by Dr. Richard Welford for ESCAP, 2009 (unpublished).

Note: Table based on categorization developed by CSR Asia.

Clearly identifying stakeholders avoids the misallocation of resources to non-stakeholders or to stakeholders with no legitimate interest or concern. However, a company may find it difficult to not only identify specific stakeholders, but also to appropriately take into account the great diversity in stakeholder groups and their various (intrinsic) and often conflicting values, objectives, expectations, and demands, all of which must be satisfied at a minimum. Some large global companies may involve with hundreds of stakeholder groups. But for most companies, it is best to avoid engaging too many stakeholders. To do so requires a company to set priorities. Some criteria which may be useful when beginning to identify stakeholders include:

- Significance of the effect of the actions of the company in the view of the stakeholder (for instance layoffs at the only plant in town will be very significant to workers, their families and other residents);
• Importance of the stakeholder group to operations (such as customers and key suppliers);
• Opportunity to access new ideas (for example, engaging a group that is likely to challenge current practices may provide fresh insight into a difficult problem—but the company had better be prepared to actually change its approach);
• Requirements of regulators or permit-issuing bodies (for instance, getting an operating license in certain countries, a company may be required to engage indigenous peoples);
• Some operations (such as emissions to land or water) may have extra-territorial impacts or implications that give legal or other grounds for special-issue groups to intervene; and,
• Opportunity to share costs in addressing a specific challenge (for instance, by partnering with another company or NGO working on the issue).

It is essential to explore which groups of stakeholders are the most powerful and therefore the company should be especially careful to engage. One useful technique is the Power-Interest Grids\textsuperscript{70} which array stakeholders on a two-by-two matrix where the dimensions are the stakeholder’s interest (in a political sense, as opposed to simple inquisitiveness) in the company or issue at hand and the stakeholder’s power to affect the company’s or issue’s future. Four categories of stakeholders are:

• \textit{Players}, who have both an interest and significant power;
• \textit{Subjects}, who have an interest, but little power;
• \textit{Context} setters who have power, but little direct interest; and,
• \textit{Crowd} which consists of stakeholders with little interest or power.

\begin{figure}
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{High Interest} & Subjects & Players \\
\hline
\textbf{Low Interest} & Crowd & Context setters \\
\hline
\text{High Power} & Low & High \\
\hline
\end{tabular}
\caption{Power-interest grid}
\end{figure}

\textit{Source: Eden, Colin and Fran Ackermann. (1998).}

Power versus interest grids typically help determine which players’ interests and power bases \textit{must} be taken into account in order to address the problem or issue at hand. They also help highlight coalitions to be encouraged or discouraged, what behaviour should be fostered, whose ‘buy in’ should be sought, and who should be ‘co-opted’. Finally, they provide some information on how to convince stakeholders to change their views.

\textsuperscript{70} Eden, Colin and Fran Ackermann. (1998). \textit{Making strategy: The journey of strategic management.}
4.2 Planning for the engagement process

It is important to be clear about the purpose of stakeholder engagement. A company may be contemplating stakeholder engagement to better understand its impacts; to help articulate its values, mission, strategy, commitments and implementation; to facilitate a regulatory approvals process; to participate in measurement and reporting; to avert or solve a crisis; or to proactively improve relationships. The company must realize its objective of engagement with each group of stakeholders, as the reason for engaging stakeholders will determine the style of engagement and stakeholders’ expectations. Notably, it is also necessary to think in advance about what a company can expect in response to feedback from stakeholders. In many cases, the company may need to prepare to change its plans significantly based on what it learns from the stakeholder consultation.

Once a company determines the objectives of engagement, it can begin to develop a plan for the engagement process. The plan should describe each stakeholder group and any corresponding subgroups, to help ensure that individual participants are appropriately representative of the full stakeholder groups. It then needs to describe existing engagement processes, since many of these can be used as a foundation to develop a more systemic approach. For example, engagement might already exist under the auspices of the current management approach that a company is already conducting, such as ISO 9000 and ISO 14000. Next, the engagement plan should note the capacity of the group to engage with the company on specific issues. Examples of this are:

- Communities, indigenous peoples and other stakeholders may need resources to participate, including credible information, compensation, travel, and/or childcare;
- Whenever possible, use the language of the stakeholder groups to reduce any gap between the company and stakeholders. At the very least, interpreters should be provided;
- Consider separating engagement processes for diverse cultural groups;
- Ensure that vulnerable or disadvantaged groups, such as employees and their representatives in some situations, can speak openly, without fear of reprisal. This may require holding engagement processes off-site;
- Be sensitive to gender and faith issues; and,
- Providing a facilitator of the same gender or faith as the participants may make the group more comfortable about sharing information.

A company needs to choose the appropriate engagement approach. This may be focus groups, individual or small group interviews, surveys, formal referrals, key-person meetings, advisory councils or some other engagement approach. The key point is that the approach chosen should reflect the engagement objectives, stakeholder capacity, cost and time constraints, and whether qualitative or quantitative information is required.
4.3 Exercising the engagement process

The key means of engagement will often be the actual dialogue and exchange of conversation. It is worth noting that dialogue means two parties conversing. It must cultivate the capacity for listening and being seen to be listening by all parties involved. Entering into engagement in a spirit of equality, respect and openness will increase opportunities for mutual benefit. Listening to the critical views of stakeholders may sometimes be challenging, but it does provide a company with an opportunity to learn more about perceived problems, and serve as a basis for constructive action. When inviting stakeholders to participate, a company should be clear about the degree of influence they will have and commit to it, as this is directly linked to trust building. Nothing is more likely to destroy trust and discourage future engagement with stakeholders than making key decisions prior to meeting with them. The more open and transparent a company is, the more trust is built and the more stable the entire process will be.

After the dialogue and engagement process have commenced and agreement by both the company and the stakeholders on the approach and deliverables has been agreed upon, it is important for the participating parties to deliver on their engagement commitments. The dialogue should be maintained in accordance with the process that has been endorsed. Clear ground rules or protocols should be set with the understanding support of all stakeholders. These protocols should cover confidentiality issues such as whether information obtained at meetings can be used publicly, and if so, how extensively. This will help prevent any potential conflicts or distrust during the dialogue process. Recording or recapitulating the main points after each meeting is one way of demonstrating mutual understanding. Dialogue can also be enhanced through the use of more than one approach, such as a combination of interviews, surveys and/or focus groups.

5. Developing a CSR-integrated strategic plan

5.1 Establishing a vision and working definition for CSR

After a company clarifies its internal values, norms, and CSR-related initiatives and practices, as well as its key stakeholders and their concerns and interests, the company can then identify a common meaning for CSR that promotes a socially responsible shared vision which includes stakeholders’ expectations and is compatible with the company’s long-term strategic goals. Developing a working definition for CSR is also essential if managers and stakeholders are to work in the same direction and to establish foundations for subsequent activities. A working definition of CSR will shed light on two key elements: (1) the motivation supporting the commitment to CSR, and (2) the stakeholders and issues identified as most important to the business. The working definition for CSR also must establish a constructive, socially responsible vision.


A strong leader can play a key role in creating a CSR vision for the company, aligning this vision with the demands from both external forces and stakeholders. A CSR vision should be designed carefully in accordance with identified corporate values and formulated to fit the corporate vision. Leaders may also take some initiative in communicating the vision in an inspiring way so that employees are further motivated to act accordingly. The prominent role of a leader in shaping and developing a company’s vision for CSR is clear in the cases of Brandix Lanka, SS Steel, DiGi Telecommunications, Frangipani Lankawi Resort & Spa, and CDL, all of which have been presented in detail in Chapter II. In addition to strong support from top leaders, a socially responsible vision must be formulated and declared by top management and then formalized and communicated through official documents, such as annual reports, corporate brochures, and online postings.

Engaging people at all levels of the company – from employees to managers and members of the board of directors – in developing the definition of CSR from the very beginning will help ensure the approach the company ultimately takes to CSR will resonate and be supported throughout the company. Input from members of the board, CEO and other senior managers can be particularly helpful in articulating a working definition, since they should be able to shed light on the initial motivations for launching work on CSR. A final note, wherever possible, top management should reference internationally-agreed standards and instruments in framing CSR working definitions as these lend further legitimacy and consistency to CSR efforts.

5.2 Benchmarking with competitors’ CSR practices, norms, standards, and practices

Some business might consider setting up a benchmark of CSR practices with its key competitors. Benchmarking allows the company to continue to highlight what it needs to keep in order to support its competitive advantage, while also identifying inappropriate activities. Benchmarking criteria must be in accord with the characteristics of the industry sector under scrutiny. This means a CSR team may explore other companies in their own country or elsewhere in the same or related sector, and whether they are conducting any CSR activities. It can examine the similarities and differences between the company and other companies. Examining the vision, values and policy statements of leading competitors, along with their codes, new CSR-related product lines or approaches, and any initiatives or programmes in which they participate, can be very useful. If possible, a CSR team may assess the benefits, costs, immediate outcomes, resource implications and changes to current practices necessary for the company to adopt similar approaches which will provide helpful information for the next stage.

The process of benchmarking competitors’ CSR practices consists of three broad steps.\(^73\)

\(^73\) Maon et.al. (2009)
• First, a company identifies the best performers on each CSR-related issue on the basis of its industry knowledge about industry-specific issues and recognized CSR champions for more general CSR issues;

• Second, the process requires identifying the norms and standards used or developed by competitors and then measuring the performance of the best-in-class companies against each of these benchmarks; and,

• Finally, a company should compare its performance with that of the best performers and accurately measure any gap.

Learning from peers and sharing experiences may be possible through networks that offer business people opportunities for learning, benchmarking, and capacity building. Furthermore, such opportunities can provide the possibility to create an exchange between business and stakeholders, such as policymakers, government, investors, social partners, civil society, and academics. In the case of the United Nations Global Compact, there are local networks in many countries across the globe. United Nations Global Compact Local Networks are clusters of participants who come together to advance the Global Compact and its principles within a particular geographic context. They perform increasingly important roles in rooting the Global Compact within different national, cultural and language contexts. Their role is to facilitate the progress of companies (both local companies and subsidiaries of foreign corporations) engaged in the Global Compact with respect to implementation of the ten principles, while also creating opportunities for multi-stakeholder engagement and collective action.

5.3 Crafting the strategy

A company needs a good CSR strategic plan to ensure that it builds, maintains and continually strengthens its identity, its market, and its relationships with all stakeholders in a productive manner. Importantly, the plan should provide a framework for a coherent business strategy based on the issues that the company and its stakeholders consider material. Thus, a CSR strategic plan becomes a roadmap for the company in moving ahead on CSR initiatives as the plan will set the direction and scope over the long-run with regard to CSR. It allows a company to be successful using its resources within its unique environment to meet market needs and fulfill stakeholder expectations. A good CSR strategy should identify the following:

• overall direction for where a company wants to take its CSR work;
• stakeholders and their perspectives and interests;
• basic approach for moving ahead;
• specific priority areas;
• timeline for action, responsible staff, and resources; and
• process for reviewing and assuring outcomes.

74 United Nations Global Compact Local Networks, visit http://www.unglobalcompact.org/NetworksAroundTheWorld/index.html
The role of top management remains critical in crafting a CSR plan. Without the backing of a company’s leadership, CSR strategies have little chance of continuity. The first step in developing a CSR strategy is therefore for the CSR team to report back to top management about key findings of the assessment and stakeholder engagement. This is to gauge interest of top management in moving ahead with the CSR approach. The CSR assessment should generate a base of information which a company can use to develop its CSR strategy. The assessment should indicate that several aspects of current operations are vulnerable to external criticism; reveal pressures from certain key stakeholders in CSR areas; or provide evidence of real opportunities for new initiatives related to CSR. The assessment may also show that current operational processes in relevant to CSR issues may not be well coordinated and some changes may be needed.

Another initial step in framing the CSR plan may involve translating values, visions, or policy statements into commitments, expectations, and guiding principles (such as codes of business conduct and ethics) that will gear the CSR practices of the company. Goal setting occurs simultaneously with the development of targets and performance measures. At this point it is also useful to explore the existing CSR instruments that have been developed to provide guidance on what to do, and how to do it. Some of these international instruments – including the United Nations Global Compact – have been developed to reflect internationally-agreed norms and standards on responsible business conduct. Others instruments, such as ISO standards and the GRI, have been developed in partnership with business, NGOs and other experts. There are also a large number of sector-specific codes and guidelines that have been developed, often by the business community. In assessing which of these (or which combination) might be most useful, it will be important to consider such issues as who else is using them, and how well they represent governmental or societal expectations.

A company may decide on one of two broad options for proceeding with CSR strategy: an incremental adjustment to CSR or a comprehensive organizational change. For an incremental change, a CSR initiative may start with a broad set of principles which can include detailed codes, conformity assessment, public reporting and involvement of community and non-governmental organization representatives. Examples of this type of incremental change, as discussed in Chapter II, include KVPL, Viyellatex, and SS Steel. On the other hand, a company may decide to change direction more fundamentally with regard to the social and environmental effects of its activities. For example, a company may decide to completely overhaul its product line, production methods and sales practices to ensure that their business conducts are not threatening the ecosystem. These types of comprehensive implementation, also discussed in Chapter II, include China Development Bank, City Developments Limited, Franginani Langkawi Resort & Spa, and Toppan Printing.

Regardless of the type of approach a company adopts, brainstorming sessions with senior managers, employees, key business partners and other stakeholders should be held to help with the formulation of a specific CSR plan. Participants must be clear on the need to align any CSR approach with the company’s core business objectives, methods
and core competencies. Some of the following questions are helpful when preparing a CSR plan:75

• What social and environmental activities and initiatives has the company undertaken already?
• What strengths, weaknesses, opportunities and threats do these present?
• What has the company learned about and from others that could be helpful?
• What are the company’s CSR vision and goals?
• Where could the company be in next five or ten years in terms of CSR activities and outcomes?
• What are the major social issues and how might the company help?
• If the company is to be a CSR leader, what changes to current practices and products would need to take place?
• Are there some CSR activities or initiatives that could easily be undertaken now?
• Are there areas in which CSR changes would have a particularly big impact on the company and others? What are they and what are the likely impacts?
• Can the proposed CSR changes be organized into short-, medium- and long-term deliverables? What are the resource implications of these deliverables?
• Are there any changes to the company’s structure that would need to occur to implement any of the deliverables?
• Are there any other obstacles or impediments (including inadequate training or equipment or inappropriate incentives structures) that might stand in the way of taking a more systematic approach to implementing CSR? If so, what are they?
• Are there opportunities for cost reductions?
• What are the potential risks of failing to take into account the broader environmental, social and economic aspects of a business’s activities?
• What should the priorities for action be if the organization decides to do more?

In addition to stimulating new ideas, such brainstorming sessions can also generate excitement and build awareness about CSR activity within a company. Ultimately, the company will need to come up with an informed decision on how it should proceed with its CSR initiative. The decision should be made after consider three main components:76 the company’s general (1) direction, (2) approach, and (3) focus areas with regard to CSR.

• **Direction** is the overall course a company can pursue or the main area it is aiming to address. For example, an apparel company could decide to emphasize worker health and safety. A property development company might decide that environmental issues associated with construction should be the nucleus of its activities. A palm oil company could choose improving relations with surrounding communities as its chief concern. A financial company might decide that anti-bribery measures are a target direction.

• **Approach** refers to how a company plans to move in the direction identified. For example, a company might decide to first revise its mission, vision, and values and ethics statements. Next, it may put a new code of conduct in place which it then communicates with employees and, finally, addresses issues with contractors. A company may take an incremental adjustment option or a comprehensive approach to these changes, as mentioned earlier.

• **Focus areas** should align most clearly with the business objectives of the company and, hence, are immediate priorities. The focus areas may identify gaps in a company’s processes; may attempt to capitalize on a new opportunity; or may address needs of certain key stakeholders. For example, a financial institution could identify new protections for clients’ personal information, while a property development company might decide to focus on its environmentally related activities as an immediate objective.

Decisions regarding these three key components of CSR strategy will involve setting priorities. The size of the problem and its seriousness, the estimated effectiveness of possible solutions and the ease of implementation are key factors to take into account when prioritizing. Financial and human resources needed to implement the changes must be assessed, as they are important criteria for decision-making, along with legal and customer requirements, and the speed with which decisions can be implemented.

A useful framework that helps a company in deciding which social concern should be the area of focus is advised by Porter and Kramer. They propose that issues affecting a company may fall into three categories. **Generic issues** are important to society but neither significantly affected by the company’s operations, nor can influence the company’s long-term competitive edge. **Value chain impacts** are those issues that are significantly affected by the company’s activities in the ordinary course of business. **Social dimensions of competitive context** are factors in the external environment that significantly affect the underlying drivers of competitiveness in the locations where the company operates. For example, carbon emissions may be a generic social issue for a financial services firm like the China Development Bank but is a negative value chain impact for a transportation-based company like COSCO, or both a value chain impact and a competitive context issue for a car manufacturer like Toyota.

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A company needs to sort all relevant issues into these three categories then rank them in terms of potential impact. The categorization may vary from business to business, industry to industry and place to place. Even issues that apply widely in the economy can have greater significance for some industries than others. Healthcare benefits will present less challenges for software development firms, where workforces tend to be small and well compensated, than for companies in retail business, which is heavily dependent on large numbers of lower-wage workers. Categorization and ranking would help a company to find ways to reinforce corporate success by advancing societal conditions but it is just the means to an end. The corporate social agenda must be responsive to stakeholders however at the same time it also needs to be strategic in selecting CSR agenda to pursue. A strategic CSR approach will help a company make the most significant social impact and garner the greater benefits for business. Porter and Kramer introduce two approaches a company may apply in choosing its CSR agenda.

Figure 3. CSR approaches

<table>
<thead>
<tr>
<th>Generic social impacts</th>
<th>Value chain social impacts</th>
<th>Social dimensions of competitive context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good citizenship</td>
<td>Mitigating harm from value chain activities</td>
<td>Strategic social contribution that leverages capabilities to improve salient areas of competitive context</td>
</tr>
<tr>
<td>Responsive CSR</td>
<td>Transform value chain activities to benefit society while reinforcing strategy</td>
<td>Strategic CSR</td>
</tr>
</tbody>
</table>


Under the responsive CSR, a company may choose to act as a good corporate citizenship which is to serve social concerns of stakeholders. A company may pursue agenda that help it mitigate existing or anticipated adverse effects from its business activities along its value chain. Because there are a myriad of possible value chain impacts for each business unit, many businesses have adopted a checklist approach to the selection of CSR agenda. The Global Reporting Initiative has enumerated a list of 141 CSR issues supplemented by auxiliary lists for different industries which could be a starting point for this purpose. Strategic CSR focuses on a small number of initiatives which social and business advantages are large and distinctive. Some companies adopt CSR agenda where the business innovation to benefit society converges with improved company's competitiveness in the product offering and the value chain. The case of Toyota's Prius mentioned in Chapter I could be considered as a good example of this. This is where the success of the business and the society become mutually reinforcing. The more closely tied a social issue is to the company’s business, the greater the opportunity to leverage the firm’s resources and capabilities to benefit society. For strategic CSR issues, when value chain practices and investments in competitive context are fully integrated, CSR
becomes hard to distinguish from the day-to-day business of a company. For example, in the case of Nestlé’s Milk District in India in Chapter I, the company investment in local infrastructure with the knowledge and technology transfer to local communities over decades had produced enormous social benefits through improved healthcare, better education, and economic development, while giving Nestlé direct and reliable access to the commodities it needs to maintain a profitable global business.

It is noted that a company could conduct strategic CSR if it can find an agenda which social dimension is added to its value proposition, making social impact integral to the overall corporate strategy.

Another helpful technique in drawing up a CSR plan is to create a matrix of proposed CSR actions.\textsuperscript{78} The matrix can be set out by environmental, social and economic aspects, though there may be some overlap. The matrix plots out current and possible CSR activities, processes, products and impacts which can then be used to cross-reference against a company’s current activities and structure. This can also be used for monitoring. An example of this type of matrix is illustrated in the following table.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
\multicolumn{2}{|c|}{Environmental activity} & \multicolumn{2}{|c|}{Social activity} & \multicolumn{2}{|c|}{Economic activity} \\
\multicolumn{2}{|c|}{} & (e.g. workers, communities) & (e.g. quality assurance, customer satisfaction) & \\
\hline
Current & Proposed & Current & Proposed & Current & Proposed \\
\hline
Processes & Registered to ISO 14001 & Kyoto emission reductions? & Certified to OHSAS* or Fair Labour Association (FLA) & Registered to ISO 9001 & Integrated Management Systems (IMS)? \\
\hline
Products/services & Some products use known logo (e.g. Organic Farming) & Products to be certified to local energy standard & None at present & SA8000 or product certification & Use of ISO 9001 logo & Keep abreast of ISO work on IMS \\
\hline
\hline
Focal point & Environmental Affairs Department & Human Resource Department & Quality Assurance Department & \\
\hline
\end{tabular}
\end{table}

\textit{Source: Hohnen (2007)}

\textit{Note:} \textsuperscript{*}OHSAS: \textit{Occupational Health and Safety Standard} \textsuperscript{**}SA: \textit{Social Accountability Standard}

\textsuperscript{78} Hohnen, Paul (2007). \textit{Corporate social responsibility: An implementation guide for business.}
Supporting organizational structure and human resource alignment for CSR implementation is essential and should be considered during the planning stage. It may include the development of an integrated CSR-enabling structure such as designating a senior official or a committee responsible for overall CSR implementation, improving inter-functional coordination, building CSR responsibilities into employees’ job descriptions and performance evaluations, recruiting people knowledgeable in CSR with appropriate attitudes and skills, and developing regular forums in which to share issues and knowledge across a company.

6. Implementing a CSR-integrated strategic plan

6.1 Building CSR commitments

CSR commitments are instruments a company develops or signs on that indicate what the company commits to conduct to address its socio-economic and environmental impacts. CSR commitments are plain-language statements containing clear and concise obligations. CSR commitments flow from the CSR assessment and strategy and are developed at the point when a company moves from designing to executing. CSR commitments help align and integrate CSR into the company’s business strategy, objectives and overall goals. The commitments provide clear guidance to employees about how they should conduct themselves. They also serve as a means in which a company can communicate the nature and direction of the company’s social and environmental responsibility to customers, investors, business partners, suppliers, communities, non-governmental organizations, governments, the general public and others. The commitments are a vital component of any company’s efforts to be transparent and accountable. CSR commitments make it clear to parties what they can expect from a company. This means the commitments can serve as a baseline against which the company’s future behaviour may be subsequently measured. An additional benefit is that by articulating these expectations up front, a company decreases the potential for misunderstandings to arise later. In this sense, CSR commitments can improve the quality of the involvement a company has with parties it interacts with.

There are two types of CSR commitments. In many circumstances, the company may already have aspirational and prescriptive commitments in place that can be adjusted to fully integrate CSR. Aspirational commitments articulate the long-term goals of a company and are usually written in general language. Examples from the case studies presented in Chapter II include Coca-Cola on water preservation and CDL on its vision to become a corporate citizen. The main objective of aspirational commitments is to articulate a high level and common understanding of what a company stands for and how it would like to be regarded. They often take the form of vision, mission, values and ethics statements, or charters. They form the backdrop for specific and prescriptive codes of conduct and standards, which are usually designed to benchmark or directly control behaviour.

For CSR to be truly integrated into values, decision-making and activities, a company's aspirational commitments must fully reflect its social and environmental positions. In the absence of CSR aspirational commitments, there is a risk that various parts of the company will embark on CSR implementation activities for different purposes. Likelihood for this occurring is reduced when work begins with a shared view of what the company stands for and where it is heading.

**Prescriptive commitments**, such as codes of conduct and standards, stipulate more specific behaviours that a company explicitly agrees to comply with. A company may choose to develop its own code of conduct (such as the case of COSCO on labour rights or CDL on supply chain management in Chapter II) or to sign on to an existing code or standard developed by a third party (such as KVPL and CADP in Chapter II). The main advantage for a company developing its own code of conduct is that the code can be tailored to reflect its specific circumstances. On the other hand, developing a code of conduct can be a lengthy and expensive process, and the end product may not have the credibility of a third-party code. There are many third-party, CSR-related codes and standards with which companies may choose to comply including the United Nations Global Compact. Non-governmental organizations frequently play lead roles in developing these codes and standards and in ensuring they undergo multi-stakeholder consultations. Codes and standards are often linked to third-party verification or certification labelling programmes. One note to be made is that a company needs to make sure its codes and standards are compatible with its mission, culture and activities. This helps to reduce the likelihood of later programmes failing upon implementation.

Before developing CSR commitments or agreeing to adhere to third-party CSR codes or standards, it is useful for companies to examine the CSR commitment instruments others are using, particularly leading companies. Companies should also research CSR instruments developed by intergovernmental bodies such as the United Nations, the International Labour Organization and the Organisation for Economic Co-operation and Development. Because governments have developed these instruments in conjunction with other parties, they have credibility and are good guides to what is considered acceptable and unacceptable behaviour. Also, a review of available non-governmental CSR-related codes and standards initiatives will likely be useful. Some key international CSR instruments are summarized in the following table.

Developing CSR commitments presents a company with the opportunity to generate interest in CSR among its staff and build agreement about how codes and standards specifically apply to the company. Based on the defined commitments, a company can then develop more practical steps towards implementation. However, consultation with stakeholders remains significantly relevant. It is critical that the board and top management firmly support a company's CSR commitments. Without such support, there is very little likelihood that subsequent CSR activities will effectively take place. Similarly, employees possess front-line knowledge of the problems a company faces and ultimately will play a critical role in implementation. Thus, their meaningful input and support to the commitments should not be neglected. There may also be value in having informal initial discussions.
with business partners, supply chain members and other contractors. The objective of these discussions would be to sound these parties out about which commitments to choose and to identify partners willing to help develop them. When the commitments apply to these parties, their involvement and agreement to comply with the terms of the commitments is crucial. In many cases, it can also be useful to reach beyond those with whom the firm has contractual relations to more broadly affected groups, such as consumers, labour and environmental organizations, community groups and governments. Drawing on the input from these consultations, a company can finalize commitments to be published and shared with all employees and stakeholders. Often this is published on the company’s website, letterhead, annual report, or even its business cards.

### 6.2 Identifying a key implementation focal point and developing an integrated decision-making structure

A clear decision-making structure identifies who is responsible for CSR decision-making and action within a company. In particular, CSR implementation will involve a number of decisions that could affect the business operations of a company. Therefore a decision-making structure should be well placed to ensure a smooth implementation and that its CSR commitments are met. There should be a team or committee, or at least
a senior manager, responsible for the overall CSR implementation within a company, and they should be given the resources to do the job effectively. If a company set up a CSR team at the beginning of the process (see section 2.1 of this chapter), the team may be appointed to oversee the CSR implementation as they have involved with the CSR initiative development from its inception and have been engaged with all stakeholders. Particular departments with CSR responsibilities (such as environment, health and safety protection, worker relations, supplier relations, community relations, and customer relations), if not directly involved on the team, will have to report and be accountable to the CSR implementation team or senior manager.

It is also essential that a company aligns and integrates its CSR goals and decision-making with its overall goals and strategies, so that taking CSR considerations into account in corporate decision-making becomes as natural as taking customer or marketing perspectives into account. It could be a centralized CSR decision-making structure, a decentralized structure, or even a hybrid. There is no single way of correctly organizing a company’s CSR decision-making. It depends on their operating features and management style. If senior management buy into CSR from its preliminary assessment to strategy development and commitments, it is not difficult to identify a person or group of managers at the top level of a company to assume key CSR decision-making responsibilities. The decision structure should also be accountable throughout the organization: from the board, CEO and senior levels, supported by coordinated cross-functional decision-making and specialized staff expertise. Notably, assigning CSR responsibilities to some top managers ensures that the CSR initiative will receive attention at the management level. The role of the board and its participation is emphasized herewith. For example, a sitting board member could be tasked with the broad responsibility for overseeing CSR activities; or a new board member with specific CSR expertise could be appointed; or CSR responsibilities could then be added to the work of existing board committees; or the entire board could be involved in CSR decisions.

### 6.3 Preparing a CSR operational plan

At this step, a company has now reached a stage where the CSR operational plan can be developed. The CSR operational plan should flow from the CSR strategy and commitments. The operational plan may be described separately or included as part of the company’s existing overall business plan. With the strategy, commitments, CSR team and decision-making structures in place, the CSR operational plan helps ensure that the words are transformed into effective action. An excellent way of doing this is to determine what human, financial and other resources and activities will be required to carry out the CSR strategy and commitments. For example, a CSR commitment may be that the company will not offer improper payments to public officials. The first operational step to implement this commitment might be to create a training course on the distinction between proper and improper payments. The next step might be to review the company’s incentive and dis-incentive structure (such as commissions) to ensure it does not indirectly encourage improper behaviour. A third step might involve setting up a hotline as a part of whistle-blower protection measure. In the CSR operational plan, each of these tasks could be
further broken down into smaller components, with specific timelines and resource requirements for each. These obligations should be built into the job description and performance objectives of each lead person which is discussed in section 8.

6.4 Mobilizing internal staff

Based on the approach set out in this chapter, input from key stakeholders should be solicited at every stage, from preliminary assessment and on through to strategy development and implementation. During the actual execution, company staff will play a central role in CSR implementation. Although top management determines CSR direction and strategy, most of the implementation activities will largely rest in the hands of the middle level managers and front-line staff. If not properly engaged, employees can be a source of problems for all concerned. Therefore, it is vitally important that there is good communication between top management and employees/employee representatives about CSR strategy and a strong commitment to its implementation. In addition, employees should fully accept and be enthusiastic about implementing a company's CSR initiatives. This will happen when they believe that senior management is serious about CSR and acts in a manner that reflects the spirit of the commitments.

In the case studies presented in Chapter II, most of the companies recognized the significance of their staff in the implementation process and fully mobilized them to be involved in their respective CSR initiatives. For KVPL, ‘A Home for Every Plantation Worker’ was aimed to directly address many aspects of the plantation worker’s human rights and well-being of staff. The employees were both the target beneficiaries and implementers. COSCO’s employees were mobilized to participate in discussions relating to production, operations and management of the company’s Collective Contract which defines their labour relations and protection of legal rights and interest of employees. DiGi Telecommunications organized several awareness, education and engagement activities for staff in line with its Deep Green initiative. Activities included car pooling and office waste reduction through recycling. For Frangipani Langkawi Resort & Spa, the company saw it was vitally important to involve staff in efforts to be environmentally responsible.

Mobilizing employees or employee representatives in implementation means to first focus on awareness. In fact, employees should be well aware of CSR directions, strategies and commitments from earlier activities, assuming they were fully engaged. At this execution stage, they should receive context for and background on the company’s approach to CSR, including the motivation for engaging in it, why the approach was adopted, its relevance to the company, how it fits with existing firm objectives, how it changes current approaches, and other implications. Involving employees in discussions of how CSR commitments are to be implemented is a good way for internal stakeholders to develop a sense of ownership of and pride in the company’s CSR activities.

In many cases, CSR training for staff will also create awareness and help employees understand how CSR issues affect them and their immediate environment and how it can be implemented. For example, to ensure that corruption prevention systems were followed
closely and understood by all staff members of the bank, China Development Bank achieved 100 per cent employee participation in its training on the systems. Viyellatex arranges regular training programmes for its workers to educate them about their rights in the workplace and policies and procedures that help maintain a healthy and productive workplace. In establishing an in-house management system to address Principle 7 of the United Nations Global Compact, Toppan provided training sessions, briefings and workshops to increase awareness of the company’s goals to its employees.

Finally, any corporate or employee activities that counteract or fall outside CSR principles and the designed CSR strategy should be identified early, as they can damage the progress to CSR success. Mechanisms and processes must be in place for early detection, reporting, and resolution of problematic activity. Such mechanisms include anonymous hotlines, e-mail boxes or ombudspersons. Regardless of which method they choose, companies must ensure that these mechanisms are designed well to deal with problems and that they are not the option of last resort.

7. Monitoring and evaluating the CSR plan

In order to improve CSR performance, monitors and evaluations should be based on measuring, verifying, and reporting, with the objectives of determining what works well, why, and how to ensure it will continue. At the same time, it should investigate what is not working well and why; exploring barriers to success and ways to overcome them; and revisiting original goals or establishing new ones as necessary.

7.1 Setting up measurable targets and identifying performance measurements

As with any other aspect of successful business practice, effective execution of a CSR initiative requires the setting of measurable targets and performance measures. In essence, some intermediate targets need to be defined as milestones along the way to the achievement of the ultimate goal. They provide a gauge of progress and an opportunity for re-evaluation when an adjustment to the approach, training or resources is necessary. When achieved, targets may also be a source of celebration in their own right. In this sense, they can help build momentum. A widely used approach to measuring success is to identify the objectives underlying a CSR commitment, develop key performance indicators, work out the measurement method and then measure the results.

The case of DiGi Telecommunications mentioned in Chapter II is a good example of this. Underlying a commitment to address climate change by managing its energy consumption and reducing its carbon release, the company set a goal to reduce its CO₂ emissions by 30 per cent by 2011. Quarterly targets were set to be monitored and evaluated to track progress. A key performance indicator is its electricity consumption; the measurement method could be recording the kilowatts of electricity used each month. A regular review of the commitments, objectives, indicators and measurement methods may lead a company to modify its CSR objectives. In the case of DiGi Telecommunications,
the company finally concluded that to achieve the CO₂ emissions target through reduction in energy consumption, all 2,500 employees needed to be aware of the goal and given the opportunity to become involved. Thus, an additional target of staff awareness of the company's commitment to address climate change must be added. This target will follow with some training programmes for employees about climate change and guidelines for individuals to address the issue. A survey conducted in early 2009 showed that DiGi had achieved 10 per cent of its target on CO₂ emissions reduction which is a reduction of 7,159 tons of CO₂ emissions. For employees, the survey indicated that 80 per cent of its staff was aware of the company's commitment to address climate change.

There may be occasions when measurable targets are not possible, as would be the case with brand recognition or a company's reputation. In such situations, a qualitative target may be used as an alternative. One credible method for measuring whether a company is meeting qualitative targets is by obtaining feedback on their effectiveness from a variety of stakeholders.

7.2 Verifying results

Proof of CSR progress is crucial to a company's success. It can provide the basis for informed decision-making by interested parties who may wish to purchase the company's products, invest in the business or support the company's activities in their community. The company can also use it as a basis for further improvement, risk assessment and support for new directions and opportunities. Proof of progress can also be important for obtaining and maintaining a company's licence to operate, improving internal operations and building relationships. Verification aims to conduct conformity in assessment of the activities being implemented, which can take place in any number of ways, including internal audits, industry (peer) and stakeholder reviews, and professional third-party audits.

Verification is often more complicated than expected. As each firm is unique, there is no single approach to carrying out the verification itself. Companies should tailor their approach of verification to suit the corporate culture, context, objectives and content of their CSR strategy and commitments. Some companies decide to engage in internal reviews. The advantage of internal reviews is that they can typically be conducted more expeditiously than external reviews and at less cost. However, internal reviews are not likely to have the credibility of those conducted by external parties and are vulnerable to criticisms of conflict of interest.

On the other hand, companies may agree to adhere to third-party-assured initiatives. Third-party certification and auditing involves on-site inspections and review of management systems to determine levels of conformity to particular criteria set out in codes and standards to which the company has agreed to adhere. The advantage of this approach is that when the third party has the credibility and experience, the verification is less vulnerable to criticisms of conflict of interest and can more likely reveal problems that might not otherwise be brought to light. That being said, third-party-verification is typically expensive, and it can be difficult to find verifiers who can bring substantive expertise to the table, not just
conformity assessment expertise. Notably, verification activities not done in a rigorous, professional manner, and not seen as credible, can serve to undermine a company's credibility and reputation.

Some companies may draw on testimonials or statements from external stakeholders in addition to other approaches. In addition to being cost efficient, an advantage of this approach is the control the company has over how verification is undertaken. A disadvantage is that this approach may lack credibility. Some firms may conduct an opinion survey of community/local leaders to see how well their activities live up to its statement of principles and report the results. Some companies may use a combination of approaches. For example, a company can employ an external stakeholder group to provide input to the company on preparing its report, and then use external auditors to verify the report.

### 7.3 Evaluating progress

An evaluation helps a company track the overall progress of its CSR progress, as per the plan, and forms the basis for improvements and modification if necessary. Using information derived from verification, evaluation enables a company to:

- determine what is working well, why and how to ensure that it continues to do so;
- investigate what is not working well and why not, explore the barriers to success and what can be changed to overcome the barriers;
- assess what competitors and others in the sector are doing and have achieved; and
- revisit original goals and make new ones as necessary.

With this base of information, a company is in good position to determine whether the current CSR approach is achieving its objectives and whether the implementation approach and overall strategy are correct. Evaluation is also all about learning. Learning organizations are those whose existence is based on continuous receipt and comprehension of new information and adaptation for sustainable advantage. They do not simply attempt to achieve objectives; they are constantly on the alert to adapt to changing circumstances or to find ways for improving their approaches. Evaluation gives them a chance to review its progress and make adjustment as needed. Some questions to help a company conducting a CSR evaluation are:

- What worked well? In what areas did a company meet or exceed targets?
- Why did it work well? Were there factors within or outside a company that helped it meet its targets?
- What did not work well? In what areas did a company not meet its targets?
- Why were these areas problematic? Were there factors within or outside a company that made the process more difficult or created obstacles?
• What did a company learn from this experience? What should continue and what should be done differently?
• Drawing on this knowledge, and information concerning new trends, what are the CSR priorities for a company in the coming year?
• Are there new CSR objectives?

An evaluation should involve stakeholder engagement, including comments and suggestions from management, CSR coordinators, managers and committees, employees and outside stakeholders.

7.4 Reporting performance

To report is to communicate with stakeholders about the company’s economic, environmental and social management and performance. There are many reasons why companies would report their CSR performance. Some see reporting as an effective communication and reputation management tool, building employee engagement and loyalty with customers, investors and suppliers around important values and issues. Others may choose to use it as a risk management tool. Not knowing the firm’s weaknesses and being unable to anticipate when it might come under fire can be very costly. CSR reporting can also lead to a market advantage by putting firms in a better position in capital access through socially responsible investing, as this can lead to being included in ethical investment funds and portfolios. In any case, CSR reporting is a big step for any company to take. In the mid-1990s, only a handful of firms reported on aspects of their performance other than financial issues. By 2006, over two-thirds of companies in the Fortune Global 250 were reporting on social and environmental policies and activities. The Global Compact requires its participants to make an annual Communication on Progress (COP) addressing actions they have taken to integrate the Compact’s ten principles. Based on the COP policy, the report must be shared publicly with stakeholders – through annual financial, sustainability or other prominent public reports, in print or on the company’s website.

A firm may want to begin with a self-assessment, moving into reporting against well-accepted global guidelines, such as those of the GRI. With the proper steps, this process can evolve into an independently verified report with stakeholder engagement. Reporting should address how societal trends are affecting a business and, in turn, how the company’s presence and operations are affecting society. As such, reporting can demonstrate a company’s motivation and willingness to position itself in terms of responsible business conduct. Notably, there is a delicate balance between providing sufficient information to be open and transparent, on the one hand, and burdening employees and stakeholders with excessive data, on the other. The objective is to share information with stakeholders to gain their trust and be viewed as credible.

The reporting itself can also be verified with third parties assessing the report’s reliability. Some companies may utilize the services of community or expert advisory panels. Panel members provide advice on how to optimize the public reporting process and how to achieve transparency in terms of the scope of report content and the thoroughness of reporting. An advantage of this approach is the credibility such panels and processes can offer, since the parties involved bring experience or concerns to the table that may be lacking in an internal review or third party conformity verification. The drawback is that this type of review might not be as thorough or professional as those undertaken through either internal or professional third-party approaches.

8. Institutionalizing CSR practice

A company needs to maintain the momentum and ensure the continuation of a successful CSR initiative. In order to be sustainable, activities must be institutionalized into the organization and considered part of the culture, because they have been adopted as a long-term strategy and decision-making guide. Committing resources and establishing rewards/penalties for achievement provide powerful and symbolic indications of this dedication to the initiative. Support and enthusiasm from employees for CSR practice can be maintained in a number of ways including:

- identifying CSR champions, people who are widely recognized among their peer employees and can help mobilize momentum for CSR practices;
- linking the success of CSR initiatives to performance; for example, incorporating CSR performance elements into job descriptions and performance evaluations;
- incorporating CSR performance indicators into the business strategic and operational plan;
- providing regular updates on progress (through various occasions and means, such as meetings or the company newsletter);
- developing incentives (such as rewards for good suggestions);
- removing or reducing dis-incentives (for example premature deadlines that encourage employees to choose non-CSR options); and
- celebrating CSR achievements, motivating the team and building enthusiasm and pride.

There are a number of studies which have identified the key role of human resource management in nurturing a strong corporate culture to institutionalize CSR values and the competencies required to achieve them.\(^8^1\) It may start with an orientation programme

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for newly recruited candidates which is designed so as to incorporate and highlight the company's CSR philosophy. The Performance Management System should be designed in such a way that it measures socially responsible initiatives taken by employees. This becomes important as the internalization of CSR in an organizational culture requires that appropriate behaviours are appraised and appreciated, as well as rewarded. If not, the company may ultimately fail to fully inculcate CSR among its employees due to a lack of positive reinforcement. Some training facilities may also be made available to help instil the CSR culture among employees. This becomes necessary to help employees learn and practice CSR activities. A code of ethics may also be adopted to stimulate social responsibility to a greater extent by reinforcing underlying CSR values among employees. The Human Resource department should also effectively measure and evaluate the value added benefits of CSR activities which produce direct results like economic savings and indirect results measured by staff attitude surveys like increases in employee satisfaction and less employee turnover; all of which indicate a contribution to business performance.

In some companies, corporate volunteer programmes offer opportunities for employees from throughout the company to become engaged citizens both with their communities and with each other. Well-designed programmes provide mechanisms for garnering input from employees and give them choices as to how they might contribute to society. Thus staff become internalized to make the company more socially consciousness. Some companies allow their employees to identify specific social projects for corporate participation. Employees deploying their skills to benefit communities can give the employees themselves more confidence in the positive contributions they are making to help society.

9. Communicating CSR commitments and performance

Information about CSR commitments, activities and performance should be communicated visibly and frequently to all employees and stakeholders during the execution and mainstreaming phases.

Continuous internal communication about CSR commitments and activities must exist between top management and employees to increase awareness of CSR among staff members. The internal communication plan should identify the communication means, whether they are newsletters, annual reports, intranet communication, meetings, training or informal mechanisms, to make employees aware that CSR is a company priority. Furthermore, during the execution phase, communication should consist of reporting on changes and reassuring employees by informing them about the CSR programme’s progress, as well as clarifying any misconceptions that may arise. Thus, top management and the CSR team can solicit input about the effects of the implementation process, enhance knowledge among all supervisory management personnel, and clearly identify and delineate role relationships and expectations.82

COSCO’s move to a more effective management system which sees workers as an essential pool of talent has been dependent on training and education programmes for employees on topics such as occupational health and safety, labour laws and regulations, production operation, management skills and participation and representation. COSCO recognized the need for good internal communication and the need to develop knowledge and communication skills of its workers to best achieve this transition. Transparency of information, improved management ability and involving employees at all levels of the process helped to create a more effective CSR execution.

For external stakeholders, good external communication is essential as a company will generally face greater demands for detailed information about the social and environmental impacts of its activities. External communications should ensure that all relevant stakeholder groups are addressed with adequate information related to the CSR initiative. It should identify individuals and groups that need to be aware of a particular CSR initiative and those who should receive hard copies of CSR documents, as well as how those individuals and groups are to be reached. The communications activities may include an awareness campaign which features advertising and speeches. Companies may wish to avoid creating CSR reports that, through their sheer size, can intimidate potential readers. Website design can help to ensure that all parties can easily access CSR information of interest to them. It is quite possible that communications will have to be tailored for various audiences (such as communications to investors are likely to be quite different from those addressed to communities).

During the mainstreaming stage, communication needs to centre more on publicizing and demonstrating the success of the CSR programme, as well as anchoring the CSR vision in the day-to-day activities of the company. Using collateral media, such as newsletters, magazines, or other frequent delivery modes, can be particularly useful, especially during this phase, to celebrate successes and institutionalise the process, as well as to maintain regular and continuous information dissemination.

In sum, companies undertaking a CSR initiative must be ready to communicate externally what they have realized and what they still hope to achieve. Corporate decisions related to the nature and the level of communication about CSR practices remain complex, because communication needs vary across stakeholders, the priority they place on CSR issues, and their potential harmful impact or influence. Thus, the clear identification of key stakeholders and their expectations, as well as continuous CSR dialogue, remain cornerstones of the CSR communication strategy.

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CHAPTER IV
ROLES OF GOVERNMENT IN SUPPORTING CSR

1. The Government case for CSR

One main proposal of this publication is that the contemporary CSR agenda is founded on the premise that businesses are part of society, their relationship with society is interdependent, and they have the potential to make a positive contribution to societal goals and aspirations. This role of business in promoting positive social progress is well recognized by governments in many developed and developing countries and they have begun to adopt this type of CSR agenda and encourage business in taking initiatives toward positive social development. At the national level, the role of CSR has been put forward as both a mechanism to address welfare deficits, and a means of promoting national competitiveness. At the international level, CSR is understood as the mechanism for companies to contribute to sustainable development. For example, CSR is considered to be the strategic solution for socio-environmental challenges in developed economies and was officially adopted by member governments at the European Commission. Recently, the agenda has been endorsed by member states within ASEAN aimed at developing viable public policy or legal CSR instruments for reference by ASEAN Member States by 2010.

There are at least four essential reasons why governments should take a CSR agenda seriously, along with implementing the necessary measures to support companies in practicing responsible conduct.

Firstly, as detailed in Chapter I, citizen groups, civil society organizations, as well as international development agencies have all advocated for inclusive and sustainable development; and governments are expected to play a key role in promoting the economic, social and environmental conditions that favour more inclusive and sustainable development. Governments are under pressure with the challenge of facilitating the transition to a more efficient economy, in conjunction with a fairer and more sustainable society. CSR is widely accepted by many governments around the world as the business sector’s contribution to inclusive and sustainable development. Thus, government can utilize a CSR agenda in pursuit of this goal.

86 Swift, Tracey and Zadek, Simon (2002). Corporate social responsibility and the competitive advantage of nations.
Secondly, CSR is considered to play an important role in contributing to the competitiveness of a country. The European Commission stresses the need to link CSR with the competitiveness of companies and national and regional economies, which in turn has been described as fundamental for a nation’s sustainability. Responsible competitiveness can be attained when an economy’s productivity and overall competitiveness is enhanced by businesses taking a holistic account of their social, economic and environmental performance. According to analysis presented in the State of Responsible Competitiveness 2007 which assessed 108 countries across the world, the correlation between the Responsible Competitiveness Index and the World Economic Forum’s Growth Competitiveness Index indicates a strong relationship ($R^2 = 0.85$) between responsibility and the most authoritative measure of country competitiveness (see Figure 4). This highlights that responsible business practice can and does reinforce competitiveness for countries at all levels of development. It also presents a challenge for governments, which

**Figure 4. Relationship between the growth competitiveness index and the responsible competitiveness index**

Source: Growth Competitiveness Index, World Economic Forum 06/07

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need to find ways of designing and implementing policies that encourage CSR practices throughout the business community to promote competitiveness at the national level.

Thirdly, financial crises and fiscal deficit have forced many governments around the world to look for a new approach for developing and funding collective action to deal with social demands that cannot be met by the government alone. The collaborative actions between governments and other sectors (in both the business and civil sectors) are a response to the limitations of government. In addition, business taking an active role in addressing some social causes is seen as a solution to current government financial crises. This allows CSR to present a new governance framework which government can use to create an enabling environment wherein the private sector is encouraged to be more engaged in social mission. CSR therefore becomes a way of promoting good company practices complementing other public efforts for societal progress.

Finally, although CSR is widely viewed as voluntary actions that companies take above and beyond regulatory requirements to improve their ethical, socio-environmental and economic performance, there is growing recognition that governments can and should contribute to shaping enabling conditions in order to see CSR more widely conducted. As Pascal Lamy, Director General of the WTO and former European Commissioner for Trade, has observed, “The societal benefits of corporate responsibility practices will remain limited unless they can be incorporated into broader strategies, and public policies certainly have a role to play in this respect”. Government therefore plays an essential role in policy development to promote CSR practice. There are a variety of public policy instruments that governments can use to promote this agenda. The following two sections introduce the roles that governments can play and some broad areas of focus where governments can take action to promote the CSR agenda in their respective countries.

2. What role can government play?

No doubt, government actions are essential to creating an enabling environment for private sector development that diminishes risks, lowers costs and barriers of operation, and raises rewards and opportunities for competitive and responsible private enterprises. The challenge for governmental agencies in promoting a CSR agenda is to identify priorities, raise awareness, create incentives and support, and mobilize resources from cross-sectoral cooperation that are meaningful in the national context, as well as building on existing initiatives and capacities. For many developing countries, especially in Asia, there is a significant opportunity for governments to harness current enthusiasm for CSR among enterprises and assist businesses in taking on a bigger role in social development, particularly under the global demands for responsible business practice.

Some key roles which a government can actively choose to engage to support a CSR agenda, include (but are not limited to) the following: regulating, facilitating, brokering, and warranting.92

2.1 Regulating

While CSR is normally seen as voluntarily going beyond local requirements, governments can “raise the bar” through stricter regulation. This can come in the form of laws, regulations, penalties, and associated measures to control aspects of business investment or operations. Governments at different levels can regulate the behaviour or practice of business by defining minimum standards for business performance embedded within the legal framework; establishing targets for business to achieve; setting up enforcers and inspectorates to oversee business conduct; promulgating codes or laws to confine undesirable business conduct; or imposing license of operation or mandatory environmental-friendly industrial systems. Examples of this include establishing a minimum age for labour forces, emission limit values for particular categories of industrial productions, or requirements for companies to publicize corporate social responsibility reports.

2.2 Facilitating

Through facilitation, governments enable or incentivize companies to engage in CSR to drive social and environmental improvements. In many of the approaches reflected under this role, government plays a catalytic, secondary, or supporting role. For example, government may provide tax incentives and penalties to promote responsible business; ensure business can access information needed; facilitate understanding of minimum legal requirements for issues relating to responsible business practice; include CSR elements in related policy areas (such as industrial policy, trade policy, environmental policy, and labour policy); offer capacity building, business advisory services and technical assistance to business when needed; or, support supply chain initiatives and voluntary certification.

2.3 Brokering

Governments can combine public resources with those of business and other actors to leverage complementary skills and resources to address issues within a CSR agenda. Government can act as a broker in partnering public sector agencies, businesses, civil society organizations and other stakeholder groups in tackling complex social and environmental challenges. Government can do this by initiating dialogue in multi-stakeholder processes; supporting joint government-industry collaboration in capacity building and developing sectoral CSR guidelines; engaging stakeholders in standards-setting processes; promoting public-private partnerships for community development; and mobilizing resources. In this role as broker, government can also stimulate the engagement of key actors in a CSR agenda by, for example, providing funding for research or leading campaigns, information collaboration and dissemination, training, or raising awareness.

92 Tom Fox, Halina Ward and Bruce Howard. (2002). Public sector roles in strengthening corporate social responsibility: A baseline study.
2.4 Warranting

Lastly, government can provide political support and public warrant of a CSR concept. In particular, this can be done for specific types of CSR-related initiatives in the marketplace. Warranting can take various forms, including commitment to implement international principles; education or awareness raising programmes; official policy documents; publicity of good CSR practice conducted by other leading companies; specific CSR-related award schemes (such as a National Green Business Award); or, endorse specific pro-CSR indicators, guidelines, systems and standards. Government can also lead by example, through things like public procurement or public sector management practices, or direct recognition of the efforts of individual enterprises through CSR award schemes.

There are often no clear-cut boundaries separating these roles. For example, there may be cases where government acts as broker, but the incentive for partnership derives from the possibility (explicit or implied) that legislation may follow if a partnership is unsuccessful. Equally, the lines between “facilitating,” “brokering,” and “warranting” are not always clear. Governments may choose to address different CSR themes through actions which utilise a variety of roles. For example, it is quite feasible for a government to seek to increase and improve the level of corporate sustainability reporting by using any one or a combination of various mandatory (legislative), facilitating (guidelines on content), brokering (engagement with multi-stakeholder processes), and warranting (publicity) effort. The next section introduces some initiatives which combine some of the different roles that government may undertake to raise the CSR profile of a country.

3. Creating an enabling environment

There is substantial evidence that governments around the world have begun to take on a CSR agenda. Some studies emphasize the influence of public policy as a critical factor in establishing a context within which CSR practice can flourish. Public policymakers can thus initiate policies and measures enabling CSR to flourish using several means. Some key means used to introduce an enabling environment for CSR in a country include the following initiatives:

3.1 Creating awareness and raising public support

CSR cannot be imposed against the will of enterprises, but can only be promoted together with them under involvement of their stakeholders. The first step to promote CSR in a country is necessarily to fill the knowledge gaps about the significance and contribution of CSR to business success and sustainability, as well to increase awareness and acceptance.

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93 Bertelsmann Stiftung and GTZ (2007). *The CSR navigator: Public policies in Africa, the Americas, Asia and Europe.*

among relevant actors. The government can play a crucial role in establishing CSR value and knowledge among the business and the general public through recognition for CSR achievement and spreading CSR information to attain a better understanding of CSR among the public. Initiative can come in the form of publicity, awarding success, campaigning for awareness, networking opportunities, and funding. In the Philippines, a presidential decree promulgated in 2002 designated the first week of July as CSR week for the country. The Stock Exchange of Thailand (SET) has run annual CSR Awards for its listed public companies since 2006. SET also set up a CSR day on 19 March each year to present awards to successful companies, recognize achievement, and promote the practice and publicize examples of innovative and good models of CSR implementation. Government leaders also play a vital role in educating the public, private and non-profit sectors on how to tackle social problems from the CSR perspective. The former Malaysian Prime Minister Datuk Seri Abdullah Ahmad Badawi gave his full backing in the fact that he was a patron of the Prime Minister’s CSR Awards launched in 2007 in Malaysia aimed at recognizing companies that have made a difference to the communities in which they operate through their CSR programmes.97

3.2 Establishing a specialized CSR agency

Because CSR agendas are often cross-cutting issues which broadly encompass human rights, labour, the environment, anti-corruption issues, a single agency within a Ministry working in a traditional ‘sil’o fashion would be incapable of effectively managing a CSR agenda. Governments in many countries have thus decided to set up specific agencies with a specific mission to promote CSR practice in their respective countries. In Thailand, the CSR Institute (CSRI) was established in 2007 under the SET to promote CSR practices among its listed public company members. CSRI aims to become a focal point for the public companies in promotion of the CSR undertaking. Later, the CSR Centre was launched under Thailand’s Ministry of Social Development and Human Security in 2008. While there is no explicit CSR public policy in Viet Nam, the government of Viet Nam developed its 2004 Strategic Orientation for Sustainable Development (Viet Nam Agenda 21 or VA21) based on the Global Agenda 21 to be a national framework and legal foundation for national sustainable development in Viet Nam. VA 21 covers many CSR-related components such as labour practice, gender equality, environmental protection and the development of local and regional communities. The Viet Nam 21 Agenda Office was set up as a national authority to deploy VA 21 and help the country to reach its goal of sustainable development. The VA 21 Agenda Office organizes sustainable development activities nationwide, cooperates with concerned ministries, and coordinates with national and international institutions. Support for business provided by the CSR specialist agency can focus on specific activities (information, advisory services, counselling and training,

96 http://www.csri.or.th/hall-of-fame
98 http://va21.org/english/
funding, as for instance) within a particular issue (for example, human rights, child care, youth work, labour, environment, or customer protection).

3.3 Reforming regulatory frameworks to meet CSR-related standards

Government plays an important role in setting standards that reflect a minimum standard of good CSR practice or performance requirements. The government is thus in a position to determine if any legal requirement is needed to ensure compliance with these minimum social and environmental standards. It also can make necessary changes to regulatory frameworks in cases where laws, tax and administrative compliance may hinder the development of responsible business practice. Legislation that supports pro-CSR industrial investment within businesses – for example, pollution charges associated with implementation of the “polluter-pays principle” – can also contribute to pro-CSR production processes. It should be noted that the government role of defining minimum legal requirements on environmental or social issues can be accompanied by access to justice for individuals who are affected by the misconduct of business.

From 2003 to date, a number of CSR-related laws and regulations in the area of environment, labour, and CSR reporting have been passed in China, and others are currently under consideration. For example, the Corporate Act was promulgated in 2006 to set general principles on social responsibility for companies to comply with business ethics and regulation. In the Philippines, a bill requiring companies to observe CSR through community projects has been filed in the Philippines’s House of Representatives and the Corporate Social Responsibility Act of 2009 was recently released. It mandates 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”. In late 2008, the government of Bangladesh has approved the long-awaited proposal for a tax exemption facility at the rate of 10 per cent on a part of the corporate income to be spent on complying with CSR practices. The exemption facility is aimed at encouraging private companies to be involved more in CSR conduct.

Although CSR agendas are giving rise to new demands for a ‘level playing field’ of minimum environmental and social standards to protect free and fair competition, the minimum mandatory standards cannot create a level playing field that allows the market to reward higher standards without penalties for failure to comply. Lack of capacity to enforce minimum standards may lead to the collapse of these types of attempts. Government needs to pay attention to this concern. Furthermore, international collaboration may be needed to avoid distortion of competition between enterprises of different countries through different standards.

3.4 Fostering interaction with businesses, NGOs and other key stakeholders

Government is in a unique position to convene necessary stakeholders in order to address social problems through a CSR agenda. In one way or another, governments can partner with foundations and corporations to support business responsibility initiatives. It plays a key role in facilitating meaningful stakeholder dialogue with the business community (for example, by building the capacity of civil society actors or by directly facilitating dialogue and multi-stakeholder processes). In India, two dialogue forums directly relevant to CSR policy development were initiated. First, the Coordination Committee to Promote Affirmative Action in the Indian Industry comprises the relevant government ministry offices (mainly the Ministry of Commerce and Industry), Associated Chambers of Commerce and Industry of India, Federation of Indian Chambers of Commerce and Industry, as well as senior representatives of industry. The aim of the partnership is to finalize a Code of Conduct on Affirmative Action and to set up an ombudsman with regional benches to monitor the compliance of the voluntary code of conduct by its members. Another forum is the India Partnership Forum (IPF) which is also involved in this multi-stakeholder dialogue forum. IPF has a more CSR-focused brief and addresses issues other than affirmative action, its areas of interest being the adoption and operationalization of a social code for business, the formulation of CSR, providing support to public policy measures on CSR, ensuring the mainstreaming of CSR education in business schools, capacity building for community development, capacity building for sustainable reporting processes and indices, building a CSR knowledge base, and providing communication and advocacy on CSR.

In some cases, governments require companies to enter into stakeholder engagement through mandatory legislation. In many cases, governments can harness the community development potential of corporate philanthropy and social investment through dialogue to optimize their alignment with community needs. In certain cases, they can mandate corporate contributions in return for a license to operate. Such partnerships also aid in raising awareness of specific social problems and link to the engagement of business, as well as the expertise of stakeholders in other sectors. Furthermore, a business-NGO partnership can provide leverage for the availability of private resources to be directly channelled to meet social and environmental solutions.

3.5 Supporting pro-CSR production and consumption

Government can promote pro-CSR production practices through business, technical and advisory services, and research. This can be achieved though a variety of means. Governments may choose to include CSR-related requirements in public procurement practices; that is, linking their actions as consumers to promotion of pro-CSR production. Two United Kingdom government departments, the Department for International Development and the Foreign and Commonwealth Office, have switched to Fairtrade products in their

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102 Eva Maria Nag (2007). ‘India’ in The CSR navigator: Public policies in Africa, the Americas, Asia and Europe.
staff restaurants. The Building and Construction Authority of Singapore (BCA) launched its BCA Green Mark Scheme in January 2005 which is an initiative to drive Singapore's construction industry towards more environment-friendly buildings. It is intended to promote sustainability in the built environment while raising environmental awareness among developers, designers and builders when beginning to conceptualize and design a project, as well as during construction. On the consumption side, support for environmental and social labelling schemes designed to stimulate consumer demand for environmentally or socially preferable goods and services can be found in developing as well as industrial countries. The Fairtrade label can be used here as well.

Many of the examples associated with an initiative through pro-CSR production and consumption reflect the role of certification, “beyond-compliance” standards, and environmental or social management systems in CSR agendas. Some labelling and certification schemes, like the product-based Indian Ecomark Scheme, have been initiated by public sector bodies. This voluntary product labelling scheme was initiated by the Indian Parliament in 1991. The Ministry of Environment and Forests, the Central Pollution Control Board, and the Bureau of Indian Standards are all involved in its administration. Assessment of consumer products in 16 categories ranging from foodstuffs to fire extinguishers is designed to take into account the full life cycle of a product (materials, production, and disposal).

3.6 Providing support to increase capacity and effectiveness for business in CSR initiatives

Other interventions by governmental agencies in some developing countries have included capacity building activities designed to help domestic producers meet CSR standards. Outlines of a broadly complementary initiative in India serve as a good example. The Indian Textiles Committee, part of the Ministry of Textiles, has taken up a national campaign to sensitize the textile and clothing industry, particularly in the SME sector, to address emerging challenges resulting from the forthcoming liberalization of the Indian textile and clothing industry. The Committee is working with the Ministry of Commerce, state governments, and local industry and trade associations on the campaign. Approximately 7,500 company representatives will have taken part in 25 workshops. The aim is to disseminate information on various standards and compliance mechanisms including ISO 9000 QMS, ISO 14000 EMS, and Social Accountability (SA8000) standards, as well as offer technical assistance to encourage implementation.

103 www.fairtrade.org.uk
104 http://www.bca.gov.sg/ContactInfo/contact_info.html
105 http://envfor.nic.in/cpcb/ecomark/
Regarding the international trade-related aspect of implementing a CSR agenda, governments in many countries now are recognizing the potential for a CSR agenda to open up new market access opportunities for exports of sustainably produced goods and services and to tackle potential exclusion from existing markets as CSR conditions are introduced. Government-led export promotion of “green” goods and services can build international market access opportunities for domestic enterprises and encourage a more pro-CSR goods and services. In this case, government can provide knowledge and technical support, including capacity building for domestic producers to enable them to meet CSR standards, and engagement in CSR standard-setting initiatives to ensure they do not create unfair market access barriers.

4. Conclusion

There is a strong link between CSR and inclusive and sustainable development. CSR provides a strategic and competitive opportunity. It is considered a cross-governmental issue, with a broad agenda related to social, environmental and international issues. Government should therefore seek to develop frameworks within which to assess local or national priorities as they relate to a CSR agenda. Government can help by mapping existing needs, opportunities and constraints in the local or national context in order to define appropriate modes of intervention within an overall national strategy. However, capacity constraints within the government itself should not be overlooked, particularly given the resource implications. Therefore, the CSR strategy of any government should go through a development process wherein locally appropriate modes of intervention are utilized rather than simply copying models from other countries. International cooperation may address the risks of reinventing the wheel and creating different levels of competition distorting requirement. Such cooperation can also mitigate capacity constraints such as by setting up a community of practice.
ANNEX 1: Company case studies

Global Compact Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights

Kelani Valley Plantations PLC.

Kelani Valley Plantations’ “A Home for Every Plantation Worker Programme” both enhances the residents’ quality of life, and minimizes their reliance on others through empowerment in terms of human rights protection.

Case focus

As part of its commitment to the Global Compact, the business community has a responsibility to uphold human rights both in the workplace and more broadly within its sphere of influence. A growing moral imperative to behave responsibly is allied to the recognition that a good human rights record can support improved business performance. A focus on core human rights would ensure that a company provides workers with a safe and secure livelihood enabling an enhanced quality of life. Such an approach can create benefits for the business, the employees and the local community.

Company profile

Kelani Valley Plantations PLC (KVPL) owns and manages 13,000 hectares of plantation land in Sri Lanka, annually producing approximately 7,000 tons of tea and 4,000 tons of rubber. KVPL has a total employee strength of 15,000 and a resident population of about 55,000 within its boundaries. KVPL recorded a turnover of US$30 million in 2008. It is part of Hayleys PLC.

KVPL has made corporate social responsibility a key part of their brand. Their core programme is called ‘A Home for Every Plantation Worker.’ This unique programme supports and respects the protection of internationally proclaimed human rights and is designed to primarily focus on enhancing the quality of life of their worker community with the intention of addressing areas that have a direct bearing on their workers’ lifestyle. The programme has four key parts:

107 All the cases summarized in this publication are drawn from case study write-ups compiled by Global Compact Local Networks during July – August 2009 for the Investors for Development (I4D) project of ESCAP. The information has been provided by the companies and Dr. Richard Welford of CSR Asia has provided a desk-top review of the cases. However, no third party verification of the cases has been performed. In line with this, the information and opinion expressed in the case study accounts should not be considered as representing the views or carrying the endorsement of ESCAP or its member governments. Mention of company names and commercial products does not imply the endorsement of the United Nations. ESCAP does not guarantee the accuracy of the data included in the cases and accepts no responsibility whatsoever for any consequence of their use.
- Living Environment,
- Health and Nutrition,
- Community Capacity Building, and
- Empowerment of Youth.

The drivers

Globally, there is a shift in business focus from pure profit to viability combined with sustainable development. There is greater awareness of social and environmental responsibility, ethical management and production and sensitivity to the customers’ preference for ethically produced goods. KVPL sees these aspects of their operations as market drivers and has had their impact on the management and development of trading and producing organizations. Nevertheless, the company recognizes that these new paradigms are quality driven with long gestation periods and returns are not visible immediately.

Account of the case study

The plantation industry is highly labour intensive and is often staffed by the descendants of indentured workers from Southern India, initially brought over by British plantation owners. As an immigrant minority group they were compelled to lead an isolated existence, totally dependent on the plantation owners for all their requirements. ‘A Home for Every Plantation Worker’ directly addresses the enhancement of the quality of life of plantation residents, primarily through empowerment and thus minimizes their reliance on others.

Plantation companies have traditionally contributed significant funds to welfare programmes of residents. These range from pre-natal health care of expectant mothers to care of children of working parents, free medical facilities for resident populations, and special programmes supported by outside agencies which address major health and welfare issues. Taken for granted by the community at large, these in-house welfare measures do not get the recognition they merit, particularly from the consumer.

‘A Home for Every Plantation Worker’ addresses many aspects of a plantation worker’s human rights. The Living Environment aspect assists with building and refurbishing good quality housing. Health and Nutrition assists with pre-school child support, and medical facilities through preventive and curative health care, maternal care, immunization, and child growth and development programmes. The Community Capacity Building focus provides nursery and preschool facilities, recreation facilities, and skill/social development projects. The Empowerment of Youth sector monitors child development, guiding education, and providing vocational training.

KVPL states its strategy is to seek to compel the consumer to recognize and purchase ethically produced goods, preferably at a premium, thus enabling the company to support and sustain further human rights initiatives in the future. The company also argues that the primary objective of KVPL’s programme is to empower their plantation
workers and to provide them with the means of self improvement and self development, rather than to constantly rely on the employer for assistance.

The responses KVPL has received to its initiatives have been encouraging as they have provided a foundation for a more interactive dialogue between management and employees and a means for consolidating relationships. The company acknowledges its employees are able to perceive greater transparency in the management's intentions whilst recognition of the value of these initiatives by other agencies, such as suppliers and clients, have given the company a preferential status.

**Business and societal benefits**

KVPL says that its clients and associates have become convinced of the value of the company's initiatives and been motivated to become partners in specific programmes. It has given the company an edge in product branding and the uniqueness of these initiatives has enabled the company to benchmark many of the associated practices. The usefulness of the initiatives for the employees has assisted in worker retention and the benefits, which have also been extended to the community outside the plantation, have enabled the company to build better relationships with the community in general.

‘A Home for Every Plantation Worker’ has attracted much attention within and outside the industry. Its success has led to collaborative welfare programmes in association with other like-minded organizations with the benefits flowing directly to the plantation residents. These benchmark initiatives have provided KVPL with a platform for launching niche products guaranteed by genuinely ethical labelling. Such initiatives have also introduced a new dimension to KVPL's relationships with stakeholders.

**Lessons learned**

Initially, to promote these initiatives and their value to all those in the organization, KVPL argues that it was necessary to change in-built resistance against radical shifts in outlook and soften particular attitudes hardened over the years. Such issues were common to both workers and managers. These difficulties were natural developments in an industry which, in many aspects, had seen little change in an unbroken history of over 125 years. To implement such a large-scale and long-term programme, the task would have been much easier had such CSR concepts been introduced at the beginning itself. This is what KVPL recommends to any new industry, that CSR should be incorporated as an integral component of the management philosophy of any organization.

**Conclusion**

A human rights initiative of this magnitude, where the results are not easily quantifiable and benefits clearly medium and long-term, would not be sustainable without the total commitment of both the management and the employees. It needs significant funding and the close monitoring of inputs and outcomes. Inputs are quantifiable in terms of money and management time whilst the outcomes are largely qualitative. But there are already
perceived to be benefits for employees and local communities. The sustainability of the programme also presupposes the willing participation of and support from both local and international industry associates and customers who see the value in the protection of human rights.
Global Compact Principle 2: Businesses should make sure that they are not complicit in human rights abuses

Wilmar International

Wilmar’s proactive multi-stakeholder approach resolves land conflicts in disparate social and legal environments across the globe.

Case focus

It is often the case that businesses can find themselves being complicit in a human rights abuse rather than directly responsible for it. The participation of the company need not actually cause the human rights abuse. Rather, the company’s assistance or encouragement has to be to a degree that, without such participation, the abuses most probably would not have occurred to the same extent or in the same way.

Understanding complicity in order to avoid complicity in human rights violations represents an important challenge for business. As the dynamics between governments, companies, and civil society organizations is changing, so too does our understanding of when and how different organizations should take on responsibilities for human rights issues.

In 2007, Wilmar was involved in a community land conflict which was partly caused by unclear land permits and a lack of legal frameworks protecting customary and indigenous rights in Indonesia. Based on this experience Wilmar enhanced its land dispute resolution procedures, including developing a multi-stakeholder approach to new land development and claims settlement, based on the concept of free, prior and informed consent (FPIC). This has helped the company address accusations that it could be complicit in human rights abuses.

Company profile

Wilmar International is headquartered in Singapore, but has operations in more than 20 countries across four continents, with a primary focus on Indonesia, Malaysia, China, India and Europe. The company is among the world’s leaders in oil palm cultivation, edible oils refining, oilseeds crushing, consumer pack edible oils processing and merchandising, specialty fats, biodiesel manufacturing, and grains processing and merchandising.

The drivers

Wilmar stresses that it is committed to establishing progressive and sustainable communities wherever it operates. Its philosophy is that business success can only be achieved if the local communities grow in tandem with its own growth. However, Wilmar’s recent experiences in Indonesia highlighted areas where such policies required major changes in policy implementation to safeguard protection of human rights.
Account of the case study

To some extent, land rights and tenure agreements in Indonesia still reflect the imposition of Western tenure systems on existing customary systems, influencing how rights to natural resources are distributed between the state and indigenous communities. Land in Indonesia is predominantly state-owned; companies and individuals are given land use rights by the local government under licensed areas for which fees or royalties are payable. Exemption to this is traditional village land, usually small plots on which villagers grow subsistence and cash crops.

Disputes may arise from overlapping claims to the same land, or through lack of provable land titles and claims of traditional rights. As a consequence, conflict over land in Indonesia has increased, and companies operating in the country can find themselves at the centre of conflicts around land rights and human rights, despite complying fully with national and local legislation.

In 2007, Wilmar was challenged by a group of international and grassroots NGOs, representing communities objecting to Wilmar’s plantation development in Kalimantan, Indonesia. This affected the company’s reputation with customers and reduced investor confidence. At the time, Wilmar operated in compliance with Indonesian legislation, and had obtained the relevant legal permits. The conflict was resolved through a multi-stakeholder process involving NGOs, lenders and extensive consultation with the affected communities.

On the basis of this experience, Wilmar realized that it needed a more proactive approach, which could prevent accusations of complicity in land conflicts and human rights abuses. This new approach ensures that customary and indigenous rights are always respected, and that communities are empowered to give their free, prior and informed consent (FPIC) to development.

Wilmar has strengthened its procedures to ensure that it does not inadvertently contribute to the disenfranchisement of indigenous populations, or breach customary rights. The company has developed a number of policies and procedures to ensure that all mutual agreements with communities and individuals in Indonesia are clearly defined, documented and legally established, thus demonstrating clear evidence of long-term land use rights for its land.

The approach is as follows:

• Wilmar’s policy is to not develop oil palm in areas where local communities are not supportive, are divided or where they dispute development. This is done through the use of the FPIC framework for all new developments.
• Implementation of FPIC is secured through negotiations directly with individual landowners, local community landowners and local community leaders.
• This entire process is witnessed by local officials, and is documented by Wilmar.
• The company pays statutory compensation to the local community leaders for the existing crops, together with a full notarization of agreements documenting ownership of land rights.

• In areas where the Group’s presence is welcome, and communities are happy with the benefits it may bring, Wilmar will continue to play an active role in enhancing socio-economic development, especially through employment and plasma small-holder schemes.

• Aside from monetary compensation, Wilmar also offers employment that enables the villagers to earn a long-term income.

• In cases where local occupants are unwilling to give up their land, those areas will be delineated as social enclaves for community use.

In cases where there are existing conflicts, Wilmar uses a similar approach, based on Free and Informed Consent (albeit Post rather than Prior). The company’s Land Claims Resolution System encompasses an inclusive multi-stakeholder approach, working closely especially with local civil society organizations.

Business and societal benefits

While Wilmar is clearly committed to respecting and protecting international human rights, the legal development of land in disputed areas can endanger the company through accusations of complicity in denying communities their traditional land rights. Wilmar has found the FPIC framework useful and has helped to provide guidance for companies operating in land-based industries, and in areas where customary and indigenous rights are not fully reflected in national legal frameworks. Although the FPIC framework should ideally be used to prevent conflicts through prior consent, Wilmar’s experience shows that the framework can also be helpful in resolving existing conflicts and enhancing community trust.

Lessons learned

Based on this experience Wilmar has learned that through a stakeholder dialogue process it can enhance its land dispute resolution procedures. It has developed a new approach to land development, based on FPIC. This has helped the company address accusations that it could be complicit in human rights abuses.

Conclusion

Wilmar’s approach to land acquisition and development has improved significantly as a result of the changes described, and the company believes that this will not only be of benefit to communities, but will also strengthen Wilmar’s commercial relationships with lenders and customers. In addition to these direct benefits, Wilmar is also committed to sharing its experiences through increased transparency and accountability to help communities and other companies operating in ambivalent legal environments.
Global Compact Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

China Ocean Shipping Company

Dialogue between workers and employers is crucial for good labour relations. Find out how COSCO achieved this by implementing a long-term human resources development strategy.

Case focus

Establishing genuine dialogue with freely chosen workers’ representatives enables both workers and employers to understand each other’s problems better and find ways to resolve them. Freedom of association and the exercise of collective bargaining provide opportunities for constructive rather than confrontational dialogue, and this harnesses energy to focus on solutions that result in benefits to the enterprise, its stakeholders, and society at large.

Freedom of association implies a respect for the right of employers and workers to freely and voluntarily establish and join organizations of their own choice and these organizations have the right to carry out their activities in full freedom and without interference.

Collective bargaining refers to the process or activity leading up to the conclusion of a collective agreement. Collective bargaining is a voluntary process used to determine terms and conditions of work and the regulation of relations between employers, workers and their organizations. An important part of the effective recognition of the right to collective bargaining is the ‘principle of good faith’. This is important for the maintenance of the harmonious development of labour relations. This principle implies that the social partners work together and make every effort to reach an agreement through genuine and constructive negotiations.

Company profile

China Ocean Shipping (Group) Company (known as COSCO Group) is a large global enterprise group focusing on international shipping, modern logistics and ship-building and ship-repairing, and integrating functions such as terminal management, shipping agency, trade, finance, IT and labour services. With an acknowledged worldwide leading position, COSCO Group is China’s largest international shipping, logistics, ship-building and ship-repairing enterprise group.

COSCO owns and controls over 800 modern merchant vessels with a total tonnage of 51 million DWTs and, by the end of 2007, an annual carrying capacity of 400 million tons. COSCO Group’s shipping lines cover over 1,500 ports in more than 160 countries and regions worldwide, and its fleet size ranks the first in China and the second in the world.
The drivers

COSCO recognizes the importance of good labour relations to its ongoing business performance. With the objectives of ensuring the occupational health and safety of employees and creating ‘harmonious’ labour relations, COSCO Group has put in place a long-term human resource development strategy to encourage innovation, improve its management and establish an effective and respectful enterprise. COSCO Group has actively promoted diversified employee and culture management and its global operation and management, recognizing that this is essential in recruiting the best talent. It aims to work closely with workers in order to use their talents in the business success and employee personal growth. This is done through a participative environment and the development of positive collective bargaining.

Account of the case study

Based on requirements regarding crew employment and management in the Regulations for Seafarers and the Labour Contract Law, COSCO Group has formulated the Human Resources Management Procedures, the Safety Risk Management Procedures, the Employees Brochure and the Collection of Organization and Human Resources Working System, defining policies relating to employee recruitment, management, employment as well as the occupational health, labour safety and welfare. These regulations provided solid policy bases and systems for the construction of a harmonious COSCO Group.

The group has established and improved the articles of association for the labour unions and organized collective, democratic negotiation as well as the communications and exchanges between employees’ representatives and members of top management of the company. It set up female employees’ committee as well as other organizations to protect legal rights and interests of female staff, which ensures physical and psychological health of women.

Trade unions at all levels of COSCO Group protect the legal rights and interests of employees. They have mobilized and organized employees to participate in discussion relating to production, operations, management and reform. The collective bargaining approach has been centred on democratic decision-making.

In 2007, the contents of the Collective Contract of COSCO Group were negotiated through employee representation leading to new contracts which further improved the construction of the system and mechanism for coordinating labour relations and protecting legal rights and interest of employees.

Each year, production and operation objectives are submitted to employee representative conventions for discussion and review. This leads on to the development of employee action plans. Through such a mechanism COSCO believes that it is enhancing the transparency of enterprise affairs. These mechanisms have played an active role in creating an open, accountable and just work environment, mobilizing employees’ commitment, enhancing the stability or working teams and improving the quality of decision-making.
Business and societal benefits

There are clear benefits of the new approach to human resource management which highlights the role of workers in creating a more sustainable enterprise. Workers are better protected, feel more involved in the organization and are therefore more productive and loyal. As an important asset to the company’s motivations, satisfied workforce can only bring business benefits.

Lessons learned

COSCO has moved to a more effective management system which sees workers as an essential pool of talent that should be involved in decision-making. However, such a transition has been dependent on annual plans for training and the education of employees on occupational health and safety, labour laws and regulations, production operation, management skills and participation and representation. It recognized the need for good internal communications and the need to develop knowledge and communications skills of workers. Transparency of information, improved management ability and involving employees at all levels helped to create a more effective organization.

Conclusion

COSCO Group is well aware that in an era of economic globalization, the competition focuses of transnational companies have changed from “hardware” to “software”, from competition on technologies and products to competition on brand and reputation linked to social responsibility. Advanced concepts and behaviours concerning social responsibility form an indispensable part of an enterprise’s core competitiveness. COSCO’s ability to shoulder social responsibilities and to gain intangible assets has become a key to its development. Central to this development has been the recognition of managerial concepts, the active involvement of workers through representative institutions and democratic collective engagement.
Global Compact Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour

Viyellatex

Viyellatex is at the forefront of the fight against forced labour in Bangladesh. The company differentiates itself by implementing strong labour standards well above prevailing industry norms. Here’s how they did it.

Case focus

Forced labour refers to all work or service that a person has not offered to do voluntarily and is made to do under the threat of punishment or retaliation, or is demanded as a means of repayment of debt. It is any work or service that is extracted from any person under the menace of any penalty, and for which that person has not offered himself/herself voluntarily. Providing wages or other compensation to a worker does not necessarily indicate that the labour is not forced or compulsory. By right, labour should be freely given and employees should be free to leave in accordance with established rules.

Company profile

Viyellatex is an export oriented knit garment manufacturing unit established in 1996. It is the single largest ISO certified knit garments in Bangladesh. With a vision to be a most regarded company (employer of choice) and first Bangladeshi company listed on the Fortune 500, the company’s mission statement is, “We want to take Viyellatex group to the highest level of excellence in the textile and apparel world.” Currently the group has 72 sewing lines for knit garments and 28 lines for woven garments with a capacity of 2.2 million and 0.5 million pieces per month respectively. More than 11,000 people are working in the Viyellatex group (female 60 per cent, male 40 per cent).

The drivers

Forced labour deprives societies of the opportunity to develop human resources for the modern labour market, and to develop skills and educate children for the labour markets of tomorrow. The debilitating consequences of forced labour are felt by the individual, in particular by children, as well as by the economy itself since the degradation of human capital and social stability results in insecure investments. By retarding the proper development of human resources, forced labour lowers the level of productivity and economic growth for society generally.

The company has recognized the need for strong labour standards and differentiates itself by setting such standards well above the prevailing industry standards. Management focuses on having a strong foundation of corporate governance, and emphasizes the need for policies and systems covering health and safety, human resource management, non-discrimination, accurate payment of wages and, in particular, the principle of upholding the elimination of all forms of forced and compulsory labour.
Account of the case study

Forced and compulsory labour can take a number of forms such as slavery, bonded labour or debt bondage, abusive conditions, prison, threat or cohesive fear of punishment, exploitative practices, physical or psychological violence, full or partial restrictions on freedom of movement, withholding and non-payment of wages, induced indebtedness by falsification of accounts, charging inflated prices, reduced value of goods or services produced, excessive interest charges, etc.

The company has a clear policy stating: “Viyellatex Group shall execute its activity with the highest regard to integrity for all the employees and shall treat each of them equally with self-esteem and proper admiration and shall not engage into any activity that enforces its human resources to work against their will."

Every single worker is provided with appropriate documents/contract papers of their employment which is clearly stated and easily understood by the individual. A worker can leave his/her respective job simply with a two months prior notice (as per local labour law) to fill the vacant place with another skilled worker and the retiring worker shall not be ill treated in this regard. There are separate boxes for complaint and suggestion in every toilet and washroom the workers use on each floor, to express any sort of grievances or suggestions from the workers. With an appropriate time-table and register book, the company also monitors the working hours of the workers and it is also stated that the management cannot force or penalize any worker who fail to complete his/her daily quoted target.

Viyellatex has introduced a new minimum pay scale for its workers, which are 20 per cent higher than the government existing minimum pay structure. The workers are paid with their salary within seven working days of the next month as per the national law and there have been no incidents of late or withheld payments. Viyellatex does not provide its employees with any sort of loans that might force the worker to remain with the company. If they need any financial assistance, they are provided so with a reasonable amount from the welfare fund which is non-refundable. The workers are also provided with the benefits of a provident fund, free launch, maternity benefits with free ultra sonogram (for female workers), free medical treatment on bi-weekly basis and annual free eye camp (including surgery and medicine) for both themselves and their families so that family health problems do not cause them to work against their will. Viyellatex group as on now has trained up 22 physically challenged girls in its own cost and recruited them into mainstream jobs, which is a continuous programme as a part of the company's CSR.

The company arranges regular training programmes for the workers to educate them about their rights at the workplace and policies and procedures that help maintaining a healthy and productive workplace. In this regard, the company works with different development agencies, NGOs, and CSOs and has earned a good reputation for so doing.
Forced labour has so many different forms that it is reflected in almost all the other policies of the company (including working hours, discrimination, child labour, remuneration). The Human Resource and Compliance Department manages any problems associated with forced labour.

**Business and societal benefits**

Good human resource management and a proactive stance on forced labour has provided Viyellatex group with a highly productive workforce. Viyellatex has the respect of its customers and benefits by being able to bargain with its clients regarding their production capacity and lead time. The company is concerned about production capacity so that excessive orders do not impose excessive overtime for the workers. To make all group activities transparent, Viyellatex implemented the most renowned ERP (Enterprise Resource Planning) system SAP, because the company believes that transparent activities can enhance proper corporate governance.

Viyellatex is the only Fair Trade accredited textile and apparel business (yarn to garment) in Bangladesh and is also certified for producing organic products under “Global Organic Textile Standards-GOTS” and Organic Exchange. They have been awarded by a number of external agencies for their economic, social and environmental contributions.

More broadly the company has been able to demonstrate that it is possible to run a successful business without any forms of forced labour. This has significant benefits to society as people are provided with access to incomes to support their families and communities.

**Lessons learned**

Engaging strongly against the exploitation of forced labour has certainly been worth it for Viyellatex and this has helped them develop a positive relationship with external stakeholders including local NGOs, development agencies, and the regulatory bodies. Even a minor labour malpractice can cause major damage for a business’s reputation and so, the issues of forced labour and other human resource issues are reflected in the entire written policies and practices of the organization.

**Conclusion**

Bangladesh is a heavily labour intensive country as it enjoys the benefit of relatively cheaper labour costs that attracts foreign brands in outsourcing their products, and which in terms now has become one of the major sources of revenue for the country. In the readymade garment sector, this case demonstrates that there is an opportunity to make profits, provide worthwhile and well remunerated work without the need for forced labour or other forms of exploitation. The company is demonstrating how it is possible to transform Bangladesh from being predominantly aid-dependent to a largely trade-dependent country in a responsible and ethical way.
Global Compact Principle 5: Businesses should uphold the effective abolition of child labour

Case 1: CADP Inc.

Child labour is commonplace in the Philippines’ sugar industry. CADP Inc. is tackling the root causes by providing scholarships, financial assistance and feeding programmes in the communities where it operates.

Case focus

Child labour is a form of exploitation that is a violation of a human right. It is the declared policy of the international community and of almost all governments to abolish child labour. Child labour is work that is damaging to a child’s physical, social, mental, psychological and spiritual development because it is work performed at too early an age. Child labour deprives children of their childhood and their dignity. They are deprived of an education and may be separated from their families.

Children who do not complete their primary education are likely to remain illiterate and never acquire the skills needed to get a job and contribute to the development of a modern economy. Consequently child labour results in under-skilled, unqualified workers and jeopardizes future improvements of skills in the workforce. Principle 5 states, the goal of all companies should be the abolition of child labour within their sphere of influence.

Company profile

CADP Group Corporation is one of the largest sugar corporations in the Philippines. Established in 1918 and strategically situated in Luzon and Visayas, the Group is the biggest raw sugar producer and the second biggest in refiner in the Philippines, taking up 19 per cent and 20 per cent of national production, respectively. In 2008, sales amounted to 6,077,312,000 pesos (approximately US$126 million).

The Group’s principal activities are carried out through three divisions: Refined Sugar; Raw Sugar and Molasses; and Tolling Services. The Refined Sugar division operates a refinery plant involving the processing of raw sugar into refined sugar. The Raw Sugar and Molasses division is involved in the extraction of juices from the canes to form sweet granular sugar. This division also produces molasses which is a thick dark brown liquid obtained from the raw sugar. The tolling operation provides services to traders and planters which involve the refining process of raw sugar owned by traders and planters to convert raw sugar into refined sugar.

The drivers

CADP owns and operates sugar milling facilities and refineries. The company adheres to the principle of not employing minors (under 18 years old), as stipulated in the labour code in the Philippines law. In the sugarcane farms in the Philippines, there has always been an issue of sugarcane cutters bringing their children to work with them.
Account of the case study

Although CADP does not maintain any sugarcane farms itself, they police the farms by asking for the birth certificate and other documents that can verify the age of workers. To help manage problems associated with child labour, the company also participates in a programme that addresses the problem of child labour in the sugar industry. The programme was established by the International Labour Organization in cooperation with the Employers Confederations of the Philippines and the Sugar Industry Foundation Inc. (SIFI).

The root cause of child labour is poverty and therefore it is simply not enough to ban children from farms. There needs to be alternatives for the children and, in particular, an encouragement and financial support to encourage children to attend school. It is also important that a company committed to the abolition of child labour contributes to tackling poverty and addresses health issues impacting poor people and their children. As part of the company’s commitment to its corporate social responsibility, a particular emphasis has therefore been put on providing programmes and services that improve the living conditions and the health of families in the community where CADP operates.

In addition to CADP’s regular educational assistance programme, the company has formed a partnership with the Education Research Development Agency Foundation and SIFI for scholarships and financial assistance for pre-school, elementary, high school and college students. It has also supported several feeding programmes for under-nourished children and supports nutrition classes for mothers. The company also conducts workshops on maternal and child health, family planning and as on rights of children. Career orientation programmes and leadership training are provided for senior high school students.

All these activities were carried out by CADP’s Community Development Department. This department is responsible for planning and designing programmes in consultation with the local community. The company sees it as vitally important to get the support of local communities. Programmes to help children and their families that are seen as being imposed will not work. In some cases local communities have even planned their own health and education programmes and presented to them to the Community Development Department for possible support and assistance.

Working with children and youth is seen as way of investing in the future of the company since they can also be the source of skilled manpower in the future. But CADP has also learned that programmes to support children have to be actively managed and that it is not enough only to provide financial assistance. Active management of the programmes increases their success rate the CADP employs community development specialists that are assigned in the community that work closely with the organizations delivering programmes.

The ownership of the programmes that CADP supports is given to the community. They need to take ownership for the successful implementation of them. But, monitoring and measurement is central to ensuring that programmes are successful and result in
a reduction of child labour, an improvement in school attendance and improved health for children and their mothers. To make any social programme sustainable, CADP usually set up a structure and systems in the community that monitor the programmes based on key performance indicators.

**Business and societal benefits**

CADP’s experience has led to its philosophy that it can only tackle child labour by taking a holistic approach to tackling poverty, enhancing health and providing educational opportunities for the whole community. This approach has demonstrated the company’s real commitment to dealing with child labour and has increased trust amongst the company’s stakeholders.

Education programmes held inside the company are now replicated down to the community. Such programmes include education on sexually transmitted infections, a HIV-AIDS information campaign and a family planning programme. CADP therefore provides educational opportunities and skills training that help the whole community to be equipped with the necessary skills that the company may need in the future as well as protecting their own health and the health and well-being of their children.

**Lessons learned**

Engaging with the issue of child labour and contributing to the health and welfare of the wider community creates a better relationship with local stakeholders and has helped to develop the company’s reputation as being a responsible business that addresses the needs of communities wherever it operates. CADP recognizes that child labour poses risks to that reputation but also stresses the need to take a community-wide approach to tackling the root causes of child labour. Success depends on commitment of the management to implement programmes in the community and it is important to work in partnership with organizations which have local expertise. Most importantly is the community ownership of the projects and ongoing measurement and monitoring.

**Conclusion**

The company was conferred with the “Child Friendly Company” award on May 2008 by the Employers’ Confederation of the Philippines. It was also awarded the second place in Workplace Reproductive Health Programme. Such recognition helps to build brand and reputation and leads to a more trusting relationship with customers, communities and other stakeholders.
Global Compact Principle 5: Businesses should uphold the effective abolition of child labour

Case 2: Brandix Lanka Limited

Brandix is a leader in the move to root out child labour in the Sri Lankan apparel industry. The company’s efforts have enabled it to secure lucrative business from high profile North American and European customers.

Case focus

Child labour is work that is damaging to a child’s physical, social, mental, psychological and spiritual development because it is work performed at too early an age. Child labour deprives children of their childhood and their dignity. They are deprived of an education and may be separated from their families. Children who do not complete their primary education are likely to remain illiterate and never acquire the skills needed to get a job and contribute to the development of a modern economy. Consequently child labour results in under-skilled, unqualified workers and jeopardizes future improvements of skills in the workforce.

If an occurrence of child labour is identified, the children need to be removed from the workplace and provided with viable alternatives. These measures often include enrolling the children in schools. Companies need to be aware that, without support, children may be forced into worse circumstances such as prostitution, and that, in some instances where children are the sole providers of income, their immediate removal from work may exacerbate rather than relieve the hardship.

Company profile

Brandix Lanka Limited (Brandix) is one of Sri Lanka’s largest exporters of apparel and is a provider to some of the world’s leading apparel brands. Brandix has made a commitment to ensure that its business decisions will balance economic progress, whilst driving a culture of sustainable development through a consciousness for the environment and the community. Because of its large presence in the manufacturing industry, Brandix has implemented a Code of Conduct in efforts to abolish child labour which also includes programmes to support education for children.

The drivers

In the manufacturing industry, particularly in South Asia, child labour is a critical, regional issue. Sri Lankan communities place a high priority on abolishing child labour and therefore Brandix, as one of the biggest manufacturers in Sri Lanka, took a lead to support this objective. From a business perspective, the abolition of child labour is a key factor in establishing business partnerships in North American and European markets.
Brandix has instigated and executed global best practices and standards in order to conform to specifications and demands of their partners and clients. Given the ethical standards and expectations of their stakeholders, Brandix believes that its commitment to upholding ethical business practices is advantageous good for business and helps it to develop its brand and reputation by going beyond simply supplying a product in accordance in legal compliance. The company supports its various CSR initiatives by placing an emphasis on stakeholder dialogue ensuring that it is sensitive to the ideas and issues of all parties concerned.

Account of the case study

By addressing issues raised through stakeholder dialogue, industry and community pressures, the Brandix Board of Directors decided to implement a policy to abolish child labour and thus has been able to achieve “Zero” child labour by setting a minimum age for recruitment. Initially the minimum was set at 16 years, adhering to the minimum statutory age for employment in the apparel sector, and was subsequently raised to 18 years, with the provision that persons between 16 and 18 could be recruited under special conditions, such as apprenticeships. For those employees, Brandix operates a special system to develop their skills and improve their quality of life. This has led to further initiatives for supporting educational programmes in Sri Lanka. In 2008, Brandix sponsored 17 schools for development of facilities, training of teachers, and provided some special educational programmes to students of those schools.

The company has also incorporated into their Code of Conduct actions such as conducting risk assessments to identify current and potential child labour in their suppliers and sub-contractors’ workplaces. However, the company recognizes that child labour has not been completely eliminated and has programmes to ensure compulsory education for children who are found to be employed in the workplace. It is also supporting the development of schools and educational programmes to that there are real alternatives to work. It also supports the career development of youth, making sure that they are aware of their options and not forced into abusive working conditions.

Brandix makes it known that companies that have not incorporated initiatives to abolish child labour into their Codes of Conduct need to understand that the abolition of child labour is everyone’s responsibility. Before the company was able to expand on such initiatives, it was not until a number of years after sustaining a no child labour policy that Brandix was able to introduce other beneficial programmes, such as focusing on developing Sri Lanka’s educational institutions.

As Brandix is now in compliance with all its Code of Conduct elements, the company has begun to implement several pilot projects in order to identify better criteria that can further meet the needs of their CSR policies. Such projects include further development of schools; an Ethical Trading Initiative (ETI) pilot project, a tripartite audit methodology to ensure that companies are adhering to ETI standards; coordinating with “The GAP, Inc.” in SA8000 implementation at manufacturer levels; and working with the NGO Garments Without Guilt.
Education programmes and schools have developed as a way of minimizing the possibility of children entering the workforce. During recent years Brandix has supported more than 40 schools by developing facilities, providing aid to train teachers and to develop educational programmes. Every Brandix factory takes ownership of developing at least one school per year.

**Business and societal benefits**

Brandix has managed to develop a reputation as an ethical company by its customers, employees, various communities, NGOs, trade unions, the Sri Lankan government, and governments of their exporting countries. The efforts to abolish child labour are well-recognized and have helped Brandix in conducting business and developing partnerships with many international buyers such as GAP, Marks & Spencer, and Tommy Hilfiger. The continuous commitment to high ethical standards has helped Brandix attract and maintain buyer relationships.

Brandix’s Code of Conduct extends to requiring its suppliers and sub-contractors to also comply with a ‘no child labour’ policy, Brandix has also demonstrated the business advantages of adhering to such a policy and has helped them in overcoming any barriers in achieving this. This business case has had a positive impact on the community though increased educational provision and better career guidance for young people.

**Lessons learned**

Because Brandix has improved social recognition, the company has learned that it has been able to attract and retain capable employees which have lead to significant cost reductions in resources needed to spend on training staff. There are minimal interruptions to the manufacturing process because of its highly satisfied workforce and they have successfully won the trust of its employees and their family members. It has also contributed to a harassment free working environment for current employees and special supporting programmes are available for children and siblings of Brandix employees.

**Conclusion**

As a result of Brandix’s commitment to abolishing child labour, the company has established high levels of trust with its buyers as it is essentially a guaranteed risk-free business to their customers because the chances of children being employed are virtually zero. This has meant easier access to markets overseas and increased opportunities for further business development.
Global Compact Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation

SS Steel (Pvt) Ltd.

SS Steel's commitment to eliminating gender discrimination in its workplace has resulted in a productive and satisfied workforce. Read about the strategy the company adopted here.

Case focus

Discrimination in employment and occupation means treating people differently or less favourably because of characteristics that are not related to their merit or the inherent requirements of the job. These characteristics commonly include: in the national law, race, colour, sex, religion, political opinion, national extraction, social origin, age, disability, HIV/AIDS status, trade union membership, and sexual orientation. Discrimination can take many forms, both in terms of gaining access to employment and in the treatment of employees once they are in work. It may be direct, such as when laws, rules or practices explicitly cite a reason such as sex or race to deny equal opportunity. Most commonly, discrimination is indirect and arises where rules or practices have the appearance of neutrality but in fact lead to exclusions. This indirect discrimination often exists informally in attitudes and practices, which if unchallenged can perpetuate in organizations. Discrimination may also have cultural roots.

Company profile

SS Steel (Pvt) Ltd., located in the heart of mill-gate road in Tongi, also known to be the oldest industrial region in Dhaka, Bangladesh; re-established the steel manufacturing business by its second generation family. Nearly 26 years ago Kazi Shafi, father of the two sons, started the business that was dedicated solely to producing reinforcement-bars from small rolling mills. At the time rolling mills were fed with sheered and cut plates derived out of abandoned ships. Rods were produced to meet the needs for affordable steel and iron for the growing territories and basic infrastructure in the newly formed Bangladesh then. Today under the management of the sons Kazi Salahuddin and Kazi Shakil, SS Steel expanded its capability in every aspects of the production spectrum and yet narrowed its product focus to become a specialty production mill. The entire process from melting Mild Steel Scrap in induction furnaces to producing the end product, reinforced bars at the rolling mills, is conducted in the facility.

The drivers

Bangladesh is heavily labour intensive as a developing country and it enjoys the benefit of relatively cheap labour costs in its geographic region that attracts foreign companies in subcontracting, which in terms has become one of the major sources of revenue for the country. But there have been cases of exploitation and violation of rights that has made
the industrial sector sensitive to both labour and gender issues. And also because of the increasing pressure from the foreign investors towards compliance efforts, companies are becoming proactive in initiating in-house standards against all possible gender and labour issues to mitigate them before they arise.

This case examines gender discrimination in a steel manufacturing company. Steel factories generally require extensive heavy work that is relatively tough for workers. Workers in steel factories generally work lesser hours than required in other types of industries and also paid higher than others. But, the foremost challenge is that, it requires a great deal of muscular strength to work in steel factories where men are more compatible than women. The case focuses on this particular issue of discrimination on the subject of employment of men and women in this steel factory.

**Account of the case study**

Kazi Sarazeen, granddaughter of the founder of SS Steel, who is also the Director of Operations for the company, first identified the issue of gender discrimination inside the work premises. She, being the only female member of management, thought of maintaining an equitable ratio among workers with respect to gender. But the main difficulty was to find ways to engage female workers into the heavy work of a steel manufacturing plant. She came up with the idea of employing female workers in supporting areas. Now she is able to maintain a ratio of 60-40 male to female workers.

The company is yet to develop a policy statement on discrimination, but, fair practice to all the employees is strictly monitored by Ms. Sarazeen in her operations procedure. In SS Steel, every worker possesses the right to communicate with the management whenever they want. Every single worker is provided with appropriate documents/contract papers for their employment that mentions their working conditions, wages, working hours, deliverables and quotas and grievance procedure, which easily understood by the individuals. Based on the type of work (core or supplementary), the papers are almost the same for every worker. A worker can leave his/her respective job merely with a one month prior notice but because of a better wage system, the labour turnover is quite low.

While men usually do the hard work of carrying the weight of heavy metal and steel into the manufacturing process, women work in making infrastructures for iron sheets, cooking food (the workers are also provided with free meals twice a day by the company), separating scrap disposals, cleaning works, and other light works. But, male workers are paid higher than female workers as they perform the core tasks and female workers perform supplementary tasks. The female workers tend to accept this since most of them are family counterparts of the male workers and income goes to the family unit. Workers are provided with subsidies to shift their homes nearby the factory premises and get free medical treatment for both themselves and their families. Management ensures that all the benefits are provided equally and fairly to all the workers and there is no trace of direct discrimination, indirect discrimination, victimization or harassment.
Business and societal benefits

The practice of non-discrimination with respect to gender has provided SS Steel with a productive and satisfied workforce where many family members often work together enhancing household incomes. In most cases, men and women of the same family earn and work together while staying nearby the factory. The next step is a clearly stated policy against discrimination. The case has demonstrated that women have a very valuable role to play in the workforce and can contribute significantly to a successful, business that promotes equal opportunities. It demonstrates to society at large that women can play an important role in the workplace that also supports the family unit.

Lessons learned

Even in a heavy work environment, the management of SS Steel demonstrated that it is possible to create jobs for female workers in its supplementary works and proactively deal with the issue of gender discrimination inside the workplace. The employment of women from the same families of men and locating them near to the factory has had positive economic and social benefits for the family units to which they belong.

Conclusion

Whilst SS Steel has engaged with the issue of gender discrimination, it recognizes that other forms of discrimination may still continue in its practices. Furthering the process of eradicating discrimination more broadly will require strong management commitment and a policy adoption to support Principle 6 of the United Nations Global Compact.
Global Compact Principle 7: Businesses should support a precautionary approach to environmental challenges

**Toppan Printing Co., Ltd.**

Toppan Printing secured cost savings, improved its brand reputation and met customer demands by firstly identifying and then preparing a strategy to deal with environmental risks and challenges. This is how the company did it.

**Case focus**

Precaution involves the systematic application of risk assessment (hazard identification, hazard characterization, appraisal of exposure and risk characterization), risk management and risk communication. When there is reasonable suspicion of harm and decision makers need to apply precaution, they have to consider the degree of uncertainty that appears from scientific evaluation. Deciding on the “acceptable” level of risk involves not only scientific-technological evaluation and economic cost-benefit analysis, but also political considerations such as acceptability to the public. From a public policy view, precaution is applied as long as scientific information is incomplete or inconclusive and the associated risk is still considered too high to be imposed on society. The level of risk considered typically relates to standards of environment, health and safety.

The key element of a precautionary approach, from a business perspective, is the idea of prevention rather than cure. In other words, it is more cost-effective to take early action to ensure that irreversible environmental damage does not occur.

**Company profile**

Since 1900, Toppan Printing Co., Ltd. has been a provider of high quality printed materials. Toppan has now expanded its business to electronic products and continues to make advancements in its technologies. At the same time, the company is taking responsibility for its actions that have social and environmental impacts. Toppan believes that the company can only further its growth by working in harmony with society and the global environment.

**The drivers**

Toppan’s main activities in relation to Principle 7 involve the management of its chemical solution storage tanks and the prevention of leakages that could harm the environment. In response, the company has implemented in-house control standards that go beyond compliance to government regulations. By formulating such stringent standards and undertaking relevant measures, Toppan is not only able to reduce environmental burden, prevent pollution, and comply with the law, but to comply with its own high values of corporate social responsibility. Moreover, by supporting the precautionary principle Toppan hopes to gain the confidence and trust of the community and its customers,
especially with regards to the management of chemicals and protection of the environment. In effect, this could potentially lead to the expansion of business opportunities.

**Account of the case study**

The precautionary principle stresses risk management. Toppan's comprehensive risk management system is based on the principles of 'prevention' and 'emergency response'. The company has embedded this into a system with a clear organizational structure and has established clear-cut lines of responsibility for risk management which are organized on a divisional basis and overseen by related head office departments. This allows for more rapid and efficient communication of information. In addition, Toppan has made its internal auditing and risk management office independent from administrative departments and continuously works on enhancing and strengthening the auditing system.

Toppan has worked closely with external auditors, industry associations and its own customers on pollution prevention measures and standards. Through holding briefings and other educative and informative events, Toppan has also obtained the understanding and cooperation of its business partners. In regard to environmental compliance, Toppan implements in-house environmental risk audits, performs on-site checks, and conducts interviews with staff. For domestic production sites in Japan, these checks are performed once a year. For sites overseas, they are conducted once every two years. Additional reviews are conducted for operational sites where deemed as necessary. As a result, these actions help Toppan obtain a pre-emptive prevention of accidents and problems.

On an annual basis risk investigations are carried out and countermeasures implemented in cooperation between the head office, different departments in charge and Toppan's operational sites. Results of the investigation and progress on countermeasures are reported to the management.

Toppan has implemented in-house control standards that go beyond compliance to government regulations. Depending on the items specified by the regulations, Toppan operates with voluntary standard values that are 50 to 90 per cent stricter than the legal requirements. Preventive measures have, for example, been applied to prevent water and soil pollution, especially when dealing with the leakage of fluids from chemical solution storage tanks. In the event of spillage, oil fences, sandbags, and other safeguards are used to contain the chemical solvents. In addition, frequent in-house checks, periodic checks by external parties, introduction of an alarm system for leaks, and the implementation of emergency response trainings have been adopted by the company to further ensure the prevention of environmental damages before they occur.

The introduction of wastewater recycling systems is an equally important part of the company's strategy on pollution prevention, as is the reduction of chemicals used. More specifically, production processes have been improved through the design of wastewater treatment facilities, which help to reduce overall water consumption and effluent discharge.
Business and societal benefits

Through its promotion of environmentally responsible and conscious activities, Toppan is able to gain a number of competitive advantages. It essentially secures the trust of its increasingly demanding customers through the improvement of the company’s environmental risk management structure and its promotion of environmentally friendly products. That way, Toppan can maintain its reputation and receive recognition for its efforts. Setting up initiatives that align with the precautionary approach ultimately helps the company to gain cost savings, though the introduction of strict standards and new equipment is usually related to high investment cost.

Lessons learned

Toppan believes it is important to have prior awareness of issues that need to be addressed. As stated in Principle 7, it is more cost-effective to prevent the problem from occurring rather than to fix it. Thus, Toppan conducts its businesses transparently through information sharing and gathering. The establishment of an in-house management system and associated organizational structure is of fundamental importance in this initiative as is the provision of training sessions, briefings and workshops to increase awareness of the company’s goals to its employees.

Conclusion

The precautionary approach is best embedded into an organization through a management system that deals with environmental risks. This needs to be linked to a risk assessment and audit process. Regular risk assessments can help to make sure that mistakes and accidents do not happen which protects the environment. However, the company has also found that customers trust the company more and often favour it because of its environmental profile.
Global Compact Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility

Case 1: DiGi Telecommunications

A leading telecommunications provider leverages a programme to reduce their carbon footprint to realize significant cost savings.

Case focus

Principle 8 stresses that businesses have a responsibility to ensure that their own activities do not cause harm to the environment of others. Society also expects business to be environmentally responsible and in turn a business gains legitimacy through meeting the needs of society. Promoting greater environmental responsibility therefore requires communications with and the involvement of internal and external stakeholders.

Company profile

DiGi Telecommunications is Malaysia’s fastest growing mobile operator driving innovations, simplicity and best value to enrich lifestyles. DiGi has a subscriber base of 7.1 million customers and has revenues of approximately RM4.8 billion.

The drivers

The ICT industry has seen a tremendous boost in demand all over the world as everyone gets online and connected through fixed and mobile telecommunications. According to a 2008 McKinsey report on the environmental impact by different industries, the ICT industry is set to become the major contributor of carbon dioxide (CO₂) emissions by 2012, surpassing even the aviation industry. This is due to the rapid adoption rate of the latest ICT technologies and industry growth in developing nations as they catch up with their more developed neighbours to be at the cutting edge of technology.

Unfortunately, a lot of these developing countries use fossil fuels to generate power, leading to more CO₂ emissions than ever before. Given DiGi’s historical power consumption (the overall CO₂ emissions in 2007 was estimated to be over 70,000 tons) and taking into consideration DiGi’s expansion plans to grow the business in order to meet the ever increasing demands from customers and shareholders DiGi recognized that its CO₂ emissions would increase to 130,000 tons by 2012. In response, DiGi decided to address its own impact upon the climate.

Account of the case study

DiGi Telecommunications launched its Deep Green programme in August 2008 to address the company’s impact on climate change with the longer term vision of embedding sustainability into the business. The company is taking measures to address climate change by managing energy consumption and looking for more energy efficient ways to halve its carbon emissions by 2012 in order to promote environmental responsibility.
DiGi decided to take climate change and sustainability as one of the key corporate initiatives. The company is now taking measures to address climate change by managing energy consumption and looking for more energy efficient ways to help achieve its carbon-reduction goals. In order to make this initiative successful and to achieve the goals set, DiGi recognized that it had to address the issue internally within all aspects of the business, and to be able to influence the debate through their interactions with their external stakeholders.

DiGi designed a two-pronged approach. First, it began by addressing internal emissions through key impact areas, namely: the mobile and IT networks; its buildings and transportation; and employees' behaviour. Secondly, DiGi activated innovative solutions to reduce its shared climate impact through interactions with external stakeholders including customers, suppliers and the community.

Any plan such as this one requires leadership and the Chief Executive Officer of DiGi has made himself the owner of the Deep Green Initiative. The support and buy in of the DiGi Management Team, the senior leadership, who directly report to the CEO is also important.

In order to ensure sufficient focus and exposure to the initiative, a cross divisional team was established. They were charged with determining plans and subsequent actions each division had to do to contribute to the achievement of the goals set, as well as to lead initiatives to influence mindset and behaviour changes among DiGi's stakeholders. The team also identifies impediments and challenges to success and recommends solutions for divisions to implement actions. While the team members report directly to the Heads of Divisions, as a group they report to the CEO and the DiGi management team.

There are certain areas of the business that were clear target areas to ensure energy reduction and efficiency, namely the mobile network, IT operations and buildings. But in order for an initiative such as this to be successful at a company level, it was recognized that all divisions had to be involved and contribute. Therefore, while key energy effective initiatives came from the Technology and Facilities Management divisions, Human Resources and Finance were also involved in relation to ensuring employee engagement as well as codes of conduct for suppliers and vendors. The Commercial Division was active in offering suitable product choices to customers, as well as ensuring external commercial activities were environmentally sound. Quarterly targets have been set and reporting and monitoring mechanisms have been put in place to track progress.

A key success factor for this initiative to be successful was to ensure that internal and external stakeholders were aware and engaged. DiGi made a conscious decision to go externally with what they were doing in relation to climate change only once they had traction internally and could show positive achievements.

The first challenge was to ensure all 2,500 employees were aware and had the opportunity to be involved. The company launched a three-week internal awareness programme across all its offices in East and West Malaysia. The internal programme was
first aimed at educating employees about climate change and showing them how they could contribute as individuals to address the issue. DiGi also wanted to make the staff aware of the ambitions the company had set and how it was a company-wide initiative and that each of them had a role to play as part of being a member of DiGi.

Quarterly, since the launch of the programme, DiGi has awareness, education and engagement activities for staff and this has been extended to include car pooling, and office waste reduction through recycling and reuse.

The plans involved getting local NGO’s to help with the environmental initiatives. DiGi also sought assistance from energy advisors and business partners to seek their input. But in most cases the company relied upon internal innovativeness and resources to implement the programme.

Of course, programmes such as this one requires resources and DiGi will invest between RM50 and RM100 million between 2008 and 2011. Fourteen climate representatives drive respective division's/team's contributions to the overall Deep Green ambitions. A four-person Corporate Responsibility team spends 50 per cent of their time on coordinating and managing the Deep Green initiatives.

**Business and societal benefits**

To date DiGi has been on target to meet its medium and longer term objectives. By early 2009 it had reduced electricity consumption by 13.7 GWh, which converts to a CO$_2$ reduction of 7,159 tons. (Based on an emissions factor of 1 GWh = 525 tons of CO$_2$ from the International Energy Agency). Eighty per cent of employees surveyed indicated a better awareness of the company’s commitment to address climate change.

An expansion of the project, Deep Green NOW (Nurturing Our World), is an outreach initiative to bring greater awareness and understanding of climate change to local communities and society more generally. It focuses on educating and engaging young Malaysians in conservation and protection of natural resources. The Mangrove Treasures of Kuala Selangor is the first such project, which aims to build greater awareness of the vital protective properties of the Kuala Selangor mangrove belt and the unique ability of these carbon forests to store CO$_2$. The programme has seen success with the local Education Departments and the community in the surrounding vicinity have been galvanized to address the environmental issues in their neighbourhoods.

**Lessons learned**

To date the key success factor of the initiative has been the buy-in and support from the CEO and senior management team. Their support enabled the Deep Green programme team to work in conjunction with the business units, demonstrating the business case for a climate change initiative.
The involvement of stakeholders has also been important. In particular internal stakeholders have to develop an awareness of the issues and engagement with the programme to make it a success. That has sometimes proven difficult given all the other priorities that employees have to deal with. But communications are central and DiGi has put together a comprehensive internal communication plan to address this. External communications are equally important for the success of the programme and the recognition of the company by other stakeholders.

Conclusion

This case study is very much work in progress. DiGi is on track in meeting the objectives and targets set. Of course there is still more to do and it will be important to keep up the commitment to the programme and continually remind staff of their roles, as well as engage in further research to ensure that energy use and climate change impacts can be further reduced in the future.
Global Compact Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility

Case 2: Coca-Cola Company
Coca-Cola is stepping up to the challenge of water scarcity by improving internal controls and engaging with local communities to improve the management of shared water resources. Read about the company’s approach here.

Case focus

In Chapter 30 of Agenda 21, the 1992 Rio Earth Summit spelled out the role of business and industry in the sustainable development agenda as: “Business and industry should increase self-regulation, guided by appropriate codes, charters and initiatives integrated into all elements of business planning and decision-making and fostering openness and dialogue with employees and the public.” The relevant principle in the Rio Declaration says businesses have the responsibility to ensure that activities on their own yard should not cause harm to the environment of its neighbours. Society also expects business to be good neighbours. Business gains its legitimacy through meeting the needs of society, and increasingly society is expressing a clear need for more environmentally sustainable practices.

Company profile

The Coca-Cola Company (TCCC) is the world’s largest beverage company, providing consumers with nearly 500 brands. Through the world’s largest beverage distribution system, consumers in more than 200 countries buy the Company’s beverages at a rate of nearly 1.6 billion servings every day. In 2007, TCCC became the first international corporation to set a goal “to return to communities and to nature an amount of water equivalent to what we use in all of our [products] and their production.” (Coca-Cola 2007 – http://www.thecoca-colacompany.com/citizenship/water_pledge.html). This means reducing the amount of water used to produce beverages, recycling water used for manufacturing processes so it can be returned safely to the environment, and replenishing water in communities and nature through locally relevant projects. Local Coca-Cola operations as well as dozens of Coca-Cola bottling plants across the South and Southeast Asian regions are part of these efforts, which include improving water efficiency in the plants by 20 per cent by 2012.

The drivers

A 2005 global water risk assessment, undertaken by TCCC, showed that water scarcity, compounded by climate change, presented one of the biggest sustainability challenges to their operations. TCCC and its bottling partners decided to embark on a process of internal improvements and engagement with local communities to help address water challenges and improve the management of shared water resources. Such efforts for example are underway in Thailand, which possesses abundant water resources. But growing demand, together with water pollution, deforestation, climate change, drought and
watershed degradation is putting increasing pressure on them. Water resource management is an issue that has garnered national attention and become a key national goal.

Account of the case study


The aim of the programme is to drive public awareness, education and action on sustainable water resource management in Thailand and to benefit hundreds of thousands of people across Thailand. The integrated programme covers four core areas: “Plant performance”, “Watershed protection”, “Community water initiatives” and “Awareness and action”.

**PLANT PERFORMANCE:** The RAKNAM programme starts with Coca-Cola responsibly managing water use within its own bottling operations. Through innovative water saving programmes and water conservation teams, Coca-Cola has successfully improved its water-use ratio in Thailand by an average of 12 per cent over the past five years. All seven Coca-Cola bottling plants in Thailand treat wastewater so stringently that the water can be returned to nature at a level that supports marine life.

**WATERSHED PROTECTION:** The RAKNAM programme is helping to protect a number of local watersheds in Thailand, preserving precious ecosystems and improving the standard of life for surrounding communities through a wide range of initiatives carried out throughout the country. The Coca-Cola Foundation Thailand, for example, is working with HAII to support sustainable watershed conservation and education in the provinces of Chiangmai and Tak. In addition, to check dam construction, this initiative involves the innovative use of GPS receivers, mobile tele-metering systems and IKONOS satellite imaging technology, and is currently benefiting over 10,000 households.

Coca-Cola is also partnering with the Chumchon Thai Foundation to promote and sustain the environmental management of the Songkhla Lake Basin, the second largest salt-water lake in Southeast Asia and a vital watershed for the south of Thailand. The programme involves community participation and capacity-building in watershed conservation, benefiting 1,200 households. As part of this collaboration, 100,000 trees have been planted in the area.

Coca-Cola is collaborating with WWF Thailand to protect and conserve the Chi River in the country’s northeast region, which drains one of the largest sub-basins of the Mekong Basin. The collaboration has improved the natural environment of the Chi watershed and will have reached over 85,000 people by the end of 2010. Over 170 Coca-Cola system employees joined the local community on World Environment Day 2009 to plant
over 30,000 vetiver grass and bamboo saplings along the banks of the Chi River. In total, almost 250,000 vetiver grass and bamboo saplings have been planted in the area, helping to prevent soil erosion and maintaining a healthy ecosystem, while almost 200,000 community members have participated.

COMMUNITY WATER INITIATIVES: The RAKNAM programme is bringing a sustainable supply of clean water to communities in water-stressed areas, while educating communities on water resource management to strengthen effectiveness and sustainability. The Coca-Cola Foundation Thailand is working with the Population and Community Development Association and the Ministry of Public Health to provide municipal water supply systems for three villages in Munchakiri District, Khon Kaen Province, and build 60 water storage tanks for 50 villages in the province, bringing a long-term supply of clean water to over 30,000 villagers in almost 8,000 households. The Foundation is also working with the Medical Services Centre of Khon Kaen under the Ministry of Public Health to run training courses on water quality testing, water management and water treatment for the villagers. Representatives from both organizations serve as consultants and trainers in the courses. This collaboration is providing an estimated 800,000 litres of clean water every year to the region. The Foundation is also providing seed funding to help the village committee maintain the water systems and keep it sustainable.

Coca-Cola has worked with HAII, the Royal Irrigation Department (RID) and other partners to construct 17 “Monkey Cheek” storage facilities in the provinces of Nakhon Sawan and Burirum. The facilities are providing over 200 households in Nakhon Sawan and over 3,500 households in Burirum with a long-term supply of water, enabling villagers to grow seasonal fruits and vegetables for personal use and to supplement their income. The Monkey Cheek facilities also help to relieve flooding during the rainy season.

In 2008, The Coca-Cola Foundation Thailand further launched a multi-year partnership with the Thai Red Cross Society to provide clean bottled water and emergency support to communities in the aftermath of disasters. The nationwide collaboration – the first of its kind in Thailand – focuses on disaster preparedness and immediate disaster relief by leveraging the Coca-Cola system’s core capabilities. This includes its extensive transportation and distribution network of thousands of trucks, 80 warehouses, and hundreds of employee volunteers who are specially trained by Red Cross staff to serve as decentralized “rapid response” units. The collaboration is expected to benefit more than 200,000 households over the next three years.

AWARENESS AND ACTION: An integral part of the RAKNAM programme focuses on driving awareness and action in the wider community about water challenges thus empowering and aiding communities to develop locally relevant water resource management solutions. These initiatives cater to adults and young people and include educational outreach programmes creating nationwide networks to share knowledge and best practice on water management.

Since 2007, for example, The Coca-Cola Foundation Thailand has been the title sponsor of the Thailand Community Water Challenge, a nationwide competition to recognize
and promote excellence in community water management. The programme has established a nationwide network of communities to share information and best practices on water resource management, reaching 36 communities to date.

In July 2008, raknam.com was launched as the first website in Thailand dedicated to driving awareness, educational activities and active participation among young people on water resource management. The website features interactive lessons, e-learning modules and a series of educational episodes in a “web TV” format. The Ministry of Education’s Basic Education Commission aims to have raknam.com reach secondary schools nationwide.

**Business and societal benefits**

Water is the lifeblood of TCCC’s business and the foundation of sustainable communities and ecosystems. Coca-Cola recognized that it cannot have a healthy and growing business unless the communities it serves are sustainable themselves. TCCC’s global water stewardship strategy, therefore, incorporates four core focus areas: plant performance, watershed protection, community water initiatives, and awareness and action. Over the past decade, TCCC has greatly increased its understanding of the many water issues the world faces, the potential of partnerships in tackling these challenges and the link to local markets and its business. Water stewardship is currently and for the foreseeable future the main sustainability focus of TCCC.

Assisting local communities in the conservation of their natural resources also serves to improve the reputation of the Coca-Cola system among local and international stakeholders. Investing in water projects in the region thus not only brings sustainability benefits, but also helps the system to maintain good relations amongst local communities and other important stakeholders.

As a result of the RAKNAM programme:

- a long-term multi-sectoral partnership movement on water resource management was created, linking government partners (e.g. Ministry of Education, Ministry of Public Health and HAII), NGOs (international and local), educational institutes and thousands of local communities towards a common goal;
- a community-based water management network was built up and a nationwide forum for exchange of information, experience, ideas and best practice provided;
- communities were actively engaged and empowered with knowledge and resources on water management helping to ensure sustainability of activities and raise awareness on a key developmental issue; and
- a new generation of responsible water users was inspired through youth education, training and outreach.
Lessons learned

The RAKNAM programme has already reached over 500,000 Thai people and shows the power of the government-civil society-business partnership approach championed by the UN Global Compact and inherent in the Millennium Development Goals. Such collaboration can be effective when it is based on shared agendas and makes use of each partner’s core competencies. The various partners involved in RAKNAM are experts in water resource management and community-led sustainability. Coca-Cola is also contributing its competencies in water quality monitoring, project management, communications as well as the time and skills of its employees.

The RAKNAM programme shows the benefit of a long-term, integrated approach to water resource management – including, for example, water quality, watershed conservation, recycling of water, stakeholder education, awareness-raising and best-practice sharing on water challenges. The RAKNAM efforts also show the importance of engaging society at all levels – from students to adults – to raise public awareness and collective action on water resource management.

Conclusion

The Coca-Cola system in Thailand is now deepening the RAKNAM partnership programme and working with its partners to expand the impact on-the-ground. The RAKNAM programme will remain the Coca-Cola system’s sustainability focus in Thailand for the foreseeable future given its relevance to Thailand, to local communities and ecosystems, and to the Coca-Cola business.
Global Compact Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies

Case 1: City Development Limited

City Developments Limited is at the forefront of incorporating eco-innovation into its real estate projects. The company views developing environmentally friendly technology and systems as adding value to its business.

Case focus

Environmentally sound technologies help to protect the environment, are less polluting, use resources in a more sustainable manner and handle waste in a more acceptable manner than the technologies for which they are substitutes. They include a variety of cleaner production process and pollution prevention technologies as well as end-of-pipe and monitoring technologies. Moreover, they can be considered total systems including know-how, procedures, goods and services and equipment as well as organizational and managerial procedures. In contributing to improved environmental performance a company can not only adopt its own best available technology and techniques but can also be part of encouraging other stakeholders to do the same.

Company profile

Established in 1963, CDL is a listed international property and hotel conglomerate involved in real estate development and investment, hotel ownership and management, facilities management as well as the provision of hospitality solutions. As a property pioneer in Singapore, CDL has over 22,000 homes. It is also one of the biggest landlords in Singapore with over 4 million square feet of lettable office, industrial, retail and residential space. To-date, it is the only developer in Singapore to be conferred the Built Environment Leadership Platinum Award 2009 and Green Mark Champion Award 2008 by the Building and Construction Authority in recognition of its industry captaincy in sustainable developments.

CSR has been an integral part of CDL’s vision and mission for the past decade. Its CSR vision is “To be a responsible corporate citizen that believes in creating value for stakeholders, conducting sustainable business practices, caring for the community and protecting the environment.”

Account of the case study

CDL views its role as more than just a builder of living spaces, but also a developer of lives and communities. It believes that a successful corporation is not founded on business achievements, but also by the positive role it can play in the community and towards environmental sustainability. One key element critical in starting CDL to formally undertake its CSR initiatives was the direction, commitment and support set down by the top management.
As a responsible developer, CDL has adopted a three-pronged holistic life cycle approach as part of its corporate green strategy to develop quality and environmentally-sustainable properties, manage properties in a cost efficient and energy-efficient way, and influence its stakeholders on environmental conservation.

CDL is been committed to developing green properties and invests between 2 per cent and 5 per cent of the construction cost of a development on green design and technological enhancements. The returns of this investment are reflected in the reduced use of natural resources, financial savings for the developer, homebuyers and tenants and the potential to enhance the capital value of the development.

CDL has been at the forefront of incorporating eco-innovation into its developments. It developed Singapore’s first Eco-Condominium, Savannah CondoPark, in 2002, as a prototype of a green development incorporating features such as:

- photovoltaic panels to power lights and water-heater in the club house;
- pneumatic waste disposal system for odourless and vector-free collection of domestic waste;
- carbon monoxide sensors for the car park to activate the ventilation fans;
- green landscape features such as an ecological pond, transplanted trees and a green retaining wall;
- designated recycling systems; and
- energy-saving light fittings and air-conditioning systems.

Since then, the incorporation of many of these green features as well as other green innovations has become standard in all CDL’s new residential projects. A recent development – Tampines Concourse – is a prime example of a green development from start to finish, incorporating energy-efficient building envelope design and eco-friendly fittings for energy and water efficiency, using recycled materials such as “Green Concrete” for its structural building components, and utilizing an innovative, indoor non-compressor fresh air cooling system for smart temperature and humidity control that helps reduce the building’s carbon footprint.

But CDP recognizes that the effective diffusion of environmental technology is also dependent on having effective management in systems in place and in encouraging improved environmental performance along supply chains. In 2003, CDL was the first private property developer in Singapore to be awarded the environmental management system standard, ISO 14001 for property development and project management.

Moreover, to help encourage suppliers and consultants to share the same level of commitment and performance, the CDL Projects Division has established the CDL 5-Star EHS Assessment System for all CDL construction sites.

All contractors must undergo quarterly inspections and audits conducted by an independent auditor who appraise and grade the contractors. After each audit, CDL will
facilitate peer learning and information sharing between all the contractors and consultants to encourage even better results in the next review. CDL has also successfully influenced its consultants and contractors to change their work processes and become more eco-conscious. With CDL’s encouragement and support, more than 50 per cent of its key consultants have voluntarily obtained their ISO 14001 certifications. The supplier audits have led to significantly improved environmental improvement over the years.

**Business and societal benefits**

As a listed company, CDL has an obligation to create value for investors and shareholders. CDL sees developing environmentally friendly technologies and putting systems in place to support them as adding value to the business. There is a strong business case for embracing green developments and technologies. Senior management commitment and a vision for a more sustainable future have enabled CDL to stay ahead of environmental trends. CDL recognized that it needed to act in a voluntary way and stay ahead of inevitable regulatory changes. Thus, in mitigating potential business risks and seizing the opportunity to create an innovative green product ended up being a win-win for the company, the customer, the environment and societies generally.

**Lessons learned**

One of the challenges CDL faced as a pioneer in adopting green technologies and systems was related to the need to continually look at innovative ways to strive for excellence and to stay ahead of its competitors. It must stay committed to refining its business processes and ensuring that it takes a holistic view by enhancing its environmental performance as well as engaging its suppliers and other stakeholders in its environmental initiatives.

**Conclusion**

Can CDL’s model be replicated? The answer is yes. Can it be sustained? The answer is that it can, only if there is commitment from top management and a corporate culture of environmental responsibility is nurtured and embedded within the entire organization. This cannot be done overnight. As seen in CDL’s case, this commitment is one that has to be cultivated and nurtured over a long time. It takes genuine passion, long term commitment as well as sustained and effective efforts.
Global Compact Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies

Case 2: The Frangipani Langkawi Resort & Spa

The Frangipani Langkawi has implemented numerous measures to reduce water, energy and materials usage, recycle waste, grow organic food and harvest rainwater. These initiatives have resulted in significant cost savings. Read the full story here.

Case focus

Environmentally sound technologies should protect the environment, are less polluting, use all resources in a more sustainable manner, recycle more of their wastes and products and handle residual wastes in a more acceptable manner than the technologies for which they were substitutes. They include a variety of cleaner production process and pollution prevention technologies as well as end-of-pipe and monitoring technologies. Improving technology may be achieved by changing the process or manufacturing technique, changing input materials and reusing materials.

Company profile

The Frangipani Langkawi Resort & Spa is a 100 per cent Malaysian owned stand alone resort which has won awards and recognition for green practices. The present owner bought an existing 15-year old 3-star hotel in 2005 and decided to upgrade it and turn it into a 4-star, environmentally responsible hotel. He undertook renovation work with environmental conservation objectives and the principles of responsible tourism in mind.

The drivers

There is growing awareness from consumers and international travellers about issues linked to the environment and climate change. This trend is set to continue and it is important that businesses become more active in their actions towards environmental conversation. The owner, Mr. Anthony Wong, is also personally committed to environmental protection and has been a nature lover from an early age. This personal commitment includes teaching others about responsible tourism demonstrating how environmental conservation can be achieved through the Frangipani and his other businesses.

Account of the case study

The principles of reuse, recycle and reduce are environmental abatement factors that can contribute to the profitability of any business and it makes good business sense to implement such practices. The environmental abatement measures at the Frangipani include:

- Reducing water consumption;
- Reducing energy consumption;
• Reducing the consumption of virgin materials;
• Recycling renovation waste;
• Sorting and recycling of domestic and commercial waste;
• Harvesting rainwater; and
• Organic food production.

Actions taken to mitigate environmental degradation in the resort took many forms. Many of the technical changes were relatively easy and resulted in cost savings. These included replacing 338 40-watt bulbs with 8-watt energy-saving bulbs in rooms, public toilets, restaurants and staff quarters.

Four old boilers were replaced with solar water heaters for showers in rooms. Other initiatives were based on better “housekeeping”. For example jugs of water and glasses are used instead of plastic bottled drinking water. Leftover soap from guest rooms is used as cleaning agents in toilets. Rainwater is used for flushing toilets. Plastic, paper, glass and aluminium cans are now all sorted for recycling. Some types of food waste are used as feed for poultry and fish in the farm and fish pond. Other garden and kitchen waste is composted reducing the need for fertilizers. Natural lemongrass is used as a mosquito repellent.

Other changes have focused on reusing materials that might otherwise have been thrown away. For example, old bathtubs are used as composting bins. Recycled wood and tree trunks are used as signage. Moreover during the renovation of the hotel a number of innovations helped to protect the environment. Roofs and balcony floors were constructed with a slope for better flow of water to prevent water ponding. Grass is grown on flat roofs keep rooms below cool, resulting in less energy consumption needed for air-conditioning. In public spaces, natural ventilation is used wherever possible.

The hotel also uses the environment as a natural resource reducing the need for chemicals. Guppy fish are reared in ponds to control mosquitoes. Coconut trunks are used as termite traps. Local wetland is used to further treat grey water from septic tanks where the aquatic plants like water hyacinth and water spinach will absorb phosphate, ammonia and urea from the water.

Another key aspect of social responsibility has been to raise awareness amongst management, staff, guests, and local communities. It is seen as vitally important to involve staff in efforts to be environmentally responsible and base some rewards on environmental performance. An important part of the approach is also to share information about the environment and the hotel’s facilities with the guests. Educating local communities, its leaders, schools and local government has also been important as well as engagement with the food, tourism and hospitality industries. This creates partnerships that make a difference in Langkawi and the industry, more generally.
Business and societal benefits

By implementing environmental conservation practices, it has become clear that there are financial and commercial benefits to be gained by Frangipani Langkawi Resort & Spa. Some of these benefits have been translated into a 50 per cent saving in water charges (US$13,000 annually), a 30 per cent saving in electricity charges (US$30,000 annually); 9 tons of recyclables recovered a year worth more than US$1,000; annual savings from organic food production (US$1,500); and, 2,400 kilograms of compost produced with annual savings in excess of US$1,500 annually.

The commercial benefits go further than simply cost savings, however. Engaging in environmental mitigation and conservation activities is seen as part of the brand and reputation of the resort leading to a competitive advantage, better customer retention, trust from the local community and better relationships with a range of stakeholders.

More broadly, the conservation activities generally have brought about a better awareness of environmental issues and benefits amongst employees, customers, business partners, communities and local government.

Lessons learned

‘Going green’ has a number of challenges. On the part of some there was ignorance and indifference, a lack of motivation and a lack of information and awareness about environmental issues. There were few incentives from government to be environmentally responsible. Most environmentally friendly products had to be imported. Some guests did not appreciate the environmental efforts. There were technical problems to be overcome because the hotel was not designed with green practices in mind from the beginning and architects and engineers seemed to lack knowledge or the willingness to implement green planning and design.

Conclusion

It is not easy to create and environmentally sensitive resort hotel and environmental aspects of the development still have to be constantly being monitored and documented. Innovation has to be ongoing and over time the hotel plans to increase its environmental activities and bring more stakeholders into that process. More broadly the resort is committed to continuous outreach through education, video presentations, open discussion or dialogue with all the stakeholders to reinforce the benefits of environmental conservation. But business has benefited through an enhanced brand and reputation. Many guests come to the resort because of the environmental profile. And in many cases that is now bringing in new business through conferences about environmental issues.
Global Compact Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

China Development Bank

China Development Bank (CDB) recognizes that corruption poses a major risk to its business operations. The company has implemented a system of four parallel inspection lines and a total of ten anti-corruption mechanisms.

Case focus

The tenth principle commits UN Global Compact participants not only to avoid bribery, extortion and other forms of corruption, but also to develop policies and concrete programmes to address corruption. Companies are challenged to join governments and other external agencies to realize a more transparent global economy.

The UN Global Compact suggests to participants to consider the following three elements when fighting corruption:

- Internal: As a first and basic step, introduce anti-corruption policies and programmes within their organizations and their business operations;
- External: Work with external agencies against corruption and share experiences and best practices;
- Collective: Join forces with industry peers and with other stakeholders.

Company profile

Since its inception in 1994, China Development Bank (CDB) has supported the development of China’s infrastructure and its industries. The Bank’s main business development and lending targets have included and will continue to include: electric power, road, railway, petroleum and petro-chemicals, coal, post and telecommunication, agriculture, forestry and water conservation, and public infrastructure. The CDB strategy involves promoting coordination in regional development and restructuring key industries; facilitating the development of new rural communities; focusing on initiatives that enhance people’s livelihood through supporting sectors that have traditionally been faced with funding constraints; steadily promoting international cooperation and supporting the implementation of the state’s “go global” strategy; and prioritizing planning, enhancing financial services and deepening financing cooperation. As a player in the Chinese and global financial markets, China Development Bank (CDB) adheres to the principles of combating corruption by establishing a comprehensive anti-corruption system centred on education, institutional capacity building, and supervision.

The drivers

CDB recognizes that corruption is a major risk for its business operations and recognizes it has role in developing systems that can tackle extortion, bribery and other
forms of corrupt activity in the financial services sector. Due to its large presence in China, CDB felt the bank should take responsibility in combating corruption, a universal challenge confronted by every company, and to lead by example.

**Account of the case study**

Four parallel inspection lines make up a supervision system in preventing corruption. They are on-side inspection to oversee breaches; off-side supervision to monitor staff integrity and self-discipline; the Department of Compliance responsible for the observance and compliance of laws and regulations; and supervision by external agencies and the general public.

CDB’s anti-corruption system is composed of more than ten anti-corruption mechanisms. The system has strict requirements on staff integrity and self-discipline; professional ethics; and prevention of conflict of interests for all staff in their work and business activities. Working in conjunction with the anti-corruption system, is the risk-spot supervision system which is a series of policy documents supervising the processes to identify risks. The policies clearly define corruption risks related to authority in four areas, namely loan management, financial operations management, personnel management, and procurement. The policies list in detail the risk responsibilities of all these posts according to business flow.

CDB formed joint supervision systems and mechanisms with local supervision departments, business departments of CDB, and various external agencies. It transformed the government supervision function into an external supervision mechanism of CDB to promote its business development, strengthened its own internal capacity and improved the risk control mechanism. The joint supervision system became the first of its kind within China’s financial sector to introduce external supervision on its own initiatives. In 2007, all branches of CDB implemented the joint supervision system.

To counter money laundering, CDB established a working agency specifically for anti-money laundering and set up specialized offices at both headquarters and its branches headed by bank leaders. Following the supervision requirements, it developed the transaction monitoring system, drafted relevant operation manuals, and issued a series of account management documents. To ensure the corruption prevention systems were followed closely and understood by all staff members of the bank. CDB achieved 100 per cent participation of employee training.

As well as having internal and external mechanisms to fight corruption, CDB also works with other stakeholders in a collective approach to fighting corruption. In 2006, CDB established a social supervision system to openly handle various complaints from society regarding the safety of its credit assets. According to CDB, this system also served as another important line of defense against risks. It also reflected its attitude to be responsible for the state and society at large while demonstrating its concepts of transparency. According to CDB, these actions received positive social response. The following year, a two-tier complaint system was established opening the system up in order to expand the
bank’s capacity to handle public complaints and also guaranteeing the right to information of the public.

**Business and societal benefits**

Establishing the various corruption prevention systems were not only crucial to the bank internally, but also served as a benefit to the public as well. The success of CDB’s corruption prevention systems has gained recognition as well. Government officials have praised the system and Chen Yuan, the Chairman of CDB was invited to join the anti-corruption working group of the UN Global Compact. According to CDB, the bank has taken a leading role in advocating the fight against corruption.

**Lessons learned**

CDB worked on both its internal systems as well as cooperating with external agencies and other stakeholders. The systems the bank implemented were tightly regulated and in worked in parallel with external public requirements. CDB therefore it did not face any notable challenges in implementing the systems, cooperating with partners, or seeking cooperation from employees. CDB emphasizes the need to focus effort on internal communications, through distributing literature and conducting training sessions to keep employees well informed of the changes and the systems, which contributed to a smooth process of implementation.

**Conclusion**

Key to building an effective anti-corruption system has been to get the cooperation of both internal and external stakeholders. Raising anti-corruption awareness is crucial in ensuring a working system, which is what they will continue to focus efforts on. According to CDB, because their regulations are so strict and their message well communicated, their internal inspection system has been working very well.
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