World review: October-December 2008: a synopsis of the key strategic developments in corporate responsibility around the globe over the last quarter

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A synopsis of the key strategic developments in corporate responsibility around the globe over the last quarter

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Looking East

AS 2008 DREW TO A CLOSE, SOME OF THE long-term implications of the financial crisis were beginning to be seen. The shift of economic power from the West to 'the rest', which had been chronicled or predicted for some time, appeared now to be inevitable, as Western governments took on huge debts to bail out their struggling banks and companies, and stimulate their economies with public spending. This has implications for the future terrain of corporate social responsibility (CSR) issues, concepts and practice. In this review of the final quarter of 2008, we examine some of dimensions to the underlying shifts in economic power and their implications for corporate citizenship. These shifts include the growing importance of Islamic finance and of state-owned funds as investors and owners of companies worldwide, and the increasing initiatives on corporate responsibility across Asia.

Islamic finance

IN NOVEMBER 2008, THE US TREASURY Department announced that it would convene an 'Islamic Finance 101' Forum to teach Islamic Finance to US banking regulatory agencies, Congress and other parts of the executive branch in Washington, DC.[1] Collaborating with the Harvard Uni-

1 Chelsea Schilling, 'US Treasury teaches 'Islamic Finance 101': advisers, scholars to promote controversial Shariah funding', *World Net Daily*, 5 November 2008; www.worldnetdaily.com/index.php?fa=PAGE.view&pageId=80003.

versity's Islamic Finance Project, the purpose of this Forum is 'to help inform the policy community about Islamic financial services which are an increasingly important part of the global financial industry'.[2]

Islamic finance is a banking system that is characterised by five principles of Shari'ah or Islamic Law. These include: prohibition of interest (*riba*), prohibition of uncertainty and excessive speculation (*gharar*), prohibition of certain economic activities (including the consumption of alcohol and tobacco, gambling and pornography), share of profits or losses (*musharakah*), and use of asset-based financing (*murabaha*).[3] Islamic finance is concentrated in the Middle East and South-East Asia (predominately Indonesia and Malaysia) but is spreading into North Africa and Europe. It is regulated by the Islamic Financial Services Board (IFSB), an international standard-setting body which 'promotes and enhances the soundness and stability of the Islamic financial services industry by issuing global prudential standards and guiding principles for the industry'.[4] In 2008 the spread of Islamic finance in Western economies was highlighted when Dublin-based maritime communications group Blue Ocean Wireless secured access to debt funding of $25 million (€17 million) from Bank of London and The Middle East plc (BLME), a Shari'ah-compliant wholesale bank based in the City of London representing what 'is thought to be the first time that an Irish company has availed of Islamic finance'[5]

Islamic finance accounts for approximately US$700 billion of assets and is growing at 10–30% annually, according to Moody's Investors Service. Wall Street now offers an Islamic mutual fund and an Islamic index. The importance of the Islamic finance principles has been accepted by the UK Financial Services Authority,[6] the World Bank and the International Monetary Fund. In December 2008, the Associated Press reported that France became the latest country to woo Islamic banks.[7] Finance minister Ms Christine Lagarde, who believes that Western financial institutions could learn a thing or two from Islamic finance, promised to make necessary adjustments to the French regulatory framework so that Paris could become a major marketplace in Islamic finance.

FRENCH FINANCE MINISTER CHRISTINE LAGARDE: WOOING ISLAMIC BANKS

The turmoil in global financial markets since mid-2008 has raised serious questions about prudential lending and borrowing practices, risk management and corporate governance.[8] Added to these are

2 ifptest.law.harvard.edu/ifphtml

3 See M. Iqbal and D.T. Llewellyn, *Islamic Banking and Finance: New Perspectives on Profit-sharing and Risk* (Cheltenham, UK: Edward Elgar, 2002).

4 www.ifsb.org

5 Ciarán Hancock, '$25m funding for Blue Ocean', *Irish Times*, 25 September 2008; www.irishtimes.com/newspaper/finance/2008/0925/1222207743548.html.

6 See the FSA white paper *Islamic Finance in the UK: Regulation and Challenges*; www.fsa.gov.uk/pubs/other/islamic_finance.pdf.

7 See Emma Vandore, 'Crisis widens appeal of Islamic finance' (24 December 2008): www.thefreelibrary.com/Crisis+widens+appeal+of+Islamic+finance-a0161175l048.

8 S.J. Liebowitz, 'Anatomy of a Train Wreck: Causes of the Mortgage Meltdown', Independent Institute, 2008; www.independent.org/publications/policy_reports/detail.asp?type=full&id=30.

two behavioural problems: greed and fear.[9] The Secretary General of the Franco-Arab Chamber of Commerce, Dr Saleh Al Tayar, claimed that the €4.9 billion loss suffered by Société Générale SA as a result of Jerome Kerviel's unauthorised trading could not have happened in an Islamic financial institution.[10] And Mohammed Awan maintains that the global financial crisis 'would not have occurred if Islamic principles were applied in international financial markets'.[11] This is because, under Shari'ah principles, one cannot 'sell debt against debt'. In turn, greed leads to sale of dubiously rated collateralised debts. A further reason advanced is that Islamic finance principles require deals to be based on tangible assets that require tight controls over debt levels.

In relation to *sukuk* (bond) issues, Shari'ah rules require bondholders to be undivided partners in the underlying asset(s) that are being financed. Accordingly, the effect on Islamic financial institutions has been muted as *sukuk* instruments are generally held to maturity.[12] Thus, narrow yield spreads provide less occasion for speculation in secondary markets. Some proponents argue there is minimal probability of default with *sukuks* since issuers are able to meet payment obligations.[13]

Moody's in its November 2008 report shows that Islamic financial institutions have been quite resilient in the current global financial crisis. As an interesting aside, no Islamic bank has acknowledged investing in Bernard Madoff's US$50 billion fraudulent Ponzi scheme.[14] The resilience of Islamic finance is summarised by Zarina Anwar[15] as follows:

> The development of Islamic finance in general is also important from the perspective of financial stability . . . The Shariah-based approach contains in-built checks and balances through risk- and profit-sharing structures. More critically, it demands a high level of disclosure and transparency in the financial system which is consistent with the principles of sound securities regulation as well as in compliance with Shariah requirements. This is not to say that Islamic asset markets have not been affected by the current turmoil. Indeed it has, and the value of Shariah compliant equities has declined in tandem with that of global equities. But it has been shown that Islamic finance in various segments of the market has been able to weather the storm relatively better than its conventional counterpart.

Nevertheless, the impact of an economic downturn and evaporating asset values was having an effect on Islamic financial institutions, and led to a number of events at the end of 2008 to discuss measures to mitigate those impacts. For example, on 25 October 2008, the Islamic Development Bank convened an urgent meeting to discuss the impact of the global financial crisis on the Islamic banking industry and agreed on policy initiatives to tackle the challenges and opportunities for the industry. In November in Kuala Lumpur, the IFSB and the Institute of International Finance (IIF) jointly organised a conference, entitled *Enhancing the Resilience and Stability of the Islamic Financial System*, to

9 Hersh Shefrin and Meir Statman, *Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing* (Boston, MA: Harvard Business School Press, 2002).

10 See Vandore, *op. cit.*

11 Mohammad Awan, 'Islamic finance could have avoided subprime crisis', Islamic Finance Blog, 14 May 2008; islamicfinancenews.wordpress.com/2008/05/14/islamic-finance-could-have-prevented-subprime-crisis.

12 'Sukuk strikes the right chord', Islamic Finance Asia, August/September 2008; www.islamicfinanceasia.com/cover.php.

13 *Islamic Finance News Guide 2008*; www.islamicfinancenews.com/pdf/guide08.pdf.

14 See Vandore, *op. cit.*

15 Anwar, Zarina, 'Coping with the Global Financial Turmoil, Restoring Investor Confidence', 13th Malaysian Capital Market Summit 2008, Kuala Lumpur, 4 December 2008; www.sc.com.my/main.asp?pageid=375&linkid=2000&yearno=2008&mod=paper.

examine whether the Islamic financial system is strong enough to weather the crisis. The connectedness of global finance and the global economy means that, although principles may protect Islamic financial institutions from the extreme impacts of the financial crisis, they cannot be insulated entirely. This raises a question that has hitherto been avoided by the Islamic finance community: should they engage more assertively in international policy processes to promote their principles to non-Islamic governments and financial institutions, for mutual benefit? An affirmative would imply a reversal of a dominant assumption of recent centuries: that the 'West' has a version of economics that is suitable for the rest of the world, while non-Western approaches are seen as exotic, at best filling a niche, at worst being mere artefacts from pre-modern societies. That is an assumption that some non-Western communities have been complicit in maintaining, by assuming their own ways of organising are specific to their society, rather than relevant for all societies.

The rest of the world could benefit from the Islamic financial community assuming a greater role in international initiatives to achieve financial stability. That is not only because of the problems described above, but because Islamic finance recognises the deep problems associated with interest. As money enters economies as debt, being lent by banks, so interest is attached, thereby requiring organisations and people to pay back more than they originally borrow. This creates a growth imperative, as the economy must keep expanding in order that the interest is paid. That poses a problem for a world of finite resources. Interest also promotes a competitive approach to society, as people need to acquire more money than they began with, because of the interest payments. In his description of money systems, one of the originators of the euro, Bernard Lietaer, explains how interest-money therefore necessitates increasing economic inequality.[16] Although many financial institutions would be wary of Islamic finance principles being seen as a blueprint for a new global financial system, as it would curtail many of their lucrative but risky activities, leaders of the 'real economy' could support such a view, as they would benefit from a more stable financial system. That is not to say that Islamic finance does not present areas for substantial refinement. First, the emphasis on debtors having tangible assets could restrict loans to the economically disadvantaged, such as those currently being helped through microfinance. In addition, the processes for discriminating against certain economic activities or systems of financing on the grounds of their being considered morally inappropriate would need to be refined. For instance, the *sukuk* market declined at one point in 2008 as a 'Bahrain-based group of Islamic scholars decreed . . . that most bonds ran afoul of religious rules . . . Only one that complies with the edict has been issued, pushing up borrowing costs on projects including $200 billion of real-estate developments in the United Arab Emirates capital'.[17] The growth of Islamic finance therefore raises challenging questions about the accountability of those who have greater power in interpreting religious texts and their contemporary spiritual implications. This highlights how an 'Eastern turn' in economic power is likely to present a range of novel questions for corporate responsibility.

Sovereign wealth fund responsibility

AS THE BANKING CRISIS DEEPENED, media attention increased on the role and

16 B.A. Lietaer, *The Future of Money: Creating New Wealth, Work and a Wiser World* (Century, 2001).

17 Haris Anwar, 'Islamic bond decree cripples sukuk, imperils projects (Update 2)', Bloomberg.com, 3 September 2008; www.bloomberg.com/apps/news?pid=20601109&sid=a_Zhoq70aPxY&refer=home.

size of sovereign wealth funds (SWFs), which played a major role in the multi-billion-dollar bailouts of Western banks such as Citigroup and UBS. Rising energy prices and trade surpluses by exporting nations enabled SWFs to grow to control assets worth an estimated $3 trillion, a figure that the Organisation for Economic Cooperation and Development (OECD) estimated could increase to around $10–12 trillion by 2012. The rise of these government-owned foreign investment funds is, the BBC notes, 'one sign of the shift in the balance of power in the world economy from Western industrialised countries to new emerging market giants like China and the oil-rich Middle East'.[18]

How does the emergence of SWFs relate to corporate responsibility? In at least two ways. First, as investors and owners of companies, they become relevant for assessment by firms with policies on whom they do business with. Second, as asset owners they have responsibilities to their ultimate beneficiaries, which are their national governments, and to others they affect through their investment decisions: sovereign wealth fund CSR.

The first area was highlighted when The Co-operative Bank in the UK publicly stated a policy on SWFs, based on its policies excluding business with companies connected with countries with poor human rights records. One league table (see Table 1 overleaf), of the world's 12 largest SWFs, shows that only four are from countries with democratically elected governments, although neither Russia nor Singapore was rated as fully free by Freedom House. Barry Clavin, The Co-operative Bank's ethical policies manager, explained, 'our policy precludes us from investing in an oppressive regime or in businesses and investments owned by an oppressive regime. Any business more than 20 per cent-owned by a blacklisted sovereign wealth fund will be turned down for business.'[19] Given the growth of SWF investing in Western companies, that stance may become difficult to maintain, as well as raising questions about its efficacy in either promoting social change or more effectively managing financially relevant human rights risks.

HUGO CHAVEZ: A POLITICAL LEADER WHO 'MIXES INVESTMENTS WITH POLITICS'

The second area of relevance for corporate citizenship is that of the SWFs' own responsibilities as private institutions—both to their beneficiaries and wider stakeholders. As the SWF assets are state-owned, we might expect them to be managed as those states see fit. The investments of SWFs have therefore raised concerns in the West that (Western) strategic assets such as banks and energy firms may end up in the hands of (unstable or unfriendly) foreign governments.[20] Concerns of stakeholders in countries receiving inward investment from SWFs therefore became more widely discussed during 2008. A McKinsey report on the topic even cited Venezuela's President Hugo Chavez as an example 'of a political leader who mixed investments with politics'[21] as an illustration of the growing calls for new rules for SWF investments.

18 'IMF deal on foreign wealth funds', BBC News, 3 September 2008; news.bbc.co.uk/1/hi/business/7595672.stm.

19 Patrick Hosking, 'Co-op boycotts funds over human rights', *The Times*, 21 May 2008; business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article3972375.ece.

20 Kevin Lim, 'IMF says voluntary code for sovereign funds by October', ArabianBusiness.com, 10 July 2008; www.arabianbusiness.com/524417-imf-says-voluntary-code-for-sovereign-funds-by-oct.

21 'OECD countries commit to open climate for Sovereign Wealth Funds', Paris, 6 June 2008; trade.ec.europa.eu/doclib/docs/2008/june/tradoc_139096.pdf.

Fund	US$ (billions)	State and Freedom House rating
Abu Dhabi Investment Council	875	UAE not free
Government Pension Fund of Norway	380	Norway free
Government of Singapore Investment Corp.	330	Singapore Partly free
Saudi Arabia—various	300	Saudi Arabia not free
Kuwait Investment Authority	250	Kuwait partly free
China Investment Corp	200	China not free
Hong Kong Monetary Authority	163	Hong Kong partly free; China not free
Temasek Holdings	159	Singapore partly free
Stabilisation Fund	157	Russia not free
Australian Future Fund	61	Australia free
Qatar Investment Authority	50	Qatar not free
Libya Arab Foreign Investment Co.	50	Libya not free

Note. This table is used to illustrate The Co-operative Bank's SWF stance; it is based on estimates that may underplay the influence of some countries via Bank investments and currency reserves (such as Japan and China) as well as excluding Western public pension funds that are regulated and potentially influenced by their governments.

Table 1 OECD ESTIMATES AND FREEDOM HOUSE HUMAN RIGHTS RATINGS, JUNE 2008
Sources: SWF Institute, IFSL estimates and Freedom House rankings; originally published in *The Times*, 21 May 2008

Traditionally, however, despite periodic press coverage about human rights abuses by some SWF regimes, both investor and investee country governments have taken a laissez-faire approach to the role of SWFs, with investee nations tending to welcome investments and SWFs tending to shy away from controversy and any appearance of interference in other states' affairs. For instance, China, Singapore and Saudi Arabia have historically downplayed the extent of their governments' potential influence on investments in the West.[22] On the other side of the SWF coin, as Western economies tend to be the major recipients of their investment funds, the OECD has argued the world economy benefits from the growth of sovereign wealth funds, 'which recycle the trade surpluses earned by oil producers and manufacturing exporters like China back into the world economy' and point out that OECD countries should be as open to investment as they have called on other countries to be.[23] The occasional high-profile protectionist stances by US lawmakers to foreign investment (for example, objecting to Dubai Ports' takeover of UK company P&O because of its US port interests on 'security grounds') have been atypical or driven by short-term political concerns. More frequently, the default position has been for governments to avoid public interference as far as possible.

This debate led to some increased transparency: for instance, by the Government of Singapore Investment Corp. (GIC), which publicly released its annual report for the first time in 2008 'to help allay Western fears that their investments are

22 Diana Farrell, 'The New Power Brokers', *BusinessWeek*, 15 July 2008; www.mckinsey.com/mgi/mginews/new_power_brokers.asp.

23 'IMF deal on foreign wealth funds' (*op. cit.*).

politically motivated',[24] following GIC's $18 billion investments in the struggling UBS and Citigroup.

Given the continuing concerns from recipient countries, and the potential backlash against SWF investments, an IMF-hosted working group involving 23 investing and recipient countries agreed a voluntary code to increase transparency by SWFs in order to 'promote a clearer understanding of the institutional framework, governance, and investment operations of SWF, thereby fostering trust and confidence in the international financial system'.[25] It was a challenging task, given the SWFs all have different sources of capital, different legal statuses, different mandates and different investment policies. In October the working group released the Santiago Principles—also known as the Generally Accepted Principles and Practices (GAPP). The principles cover areas such as SWFs' meeting of local recipient regulatory requirements, making public disclosures in a variety of areas, and investing on the basis of economic and risk-and-return considerations. The principles were founded on the notion of keeping politics out of the way of SWF investment, whether the politics of the recipient or investor country.

Although some questioned whether the code would really restrict political involvement in the management of the funds and thus the companies they invest in, what matters more for corporate responsibility and responsible investment is the way the code reasserts the primacy of financial value over other values, and limits fiduciary duty to solely financial considerations. Thus, SWF managers may become more accountable through procedures associated with the measurement of the financial performance of their funds, yet less accountable to the people whose savings created the funds in the first place, because their interests are assumed to be purely financial. If, as a result, managers of large companies worldwide can access funds that are purely interested in financial returns, this may not help achieve greater corporate accountability, and could undermine the move towards more active and responsible ownership typified by the development of the UN Principles for Responsible Investment (UNPRI).

NORWAY'S FINANCE MINISTER KRISTIN HALVORSEN: EXCLUDING RIO TINTO ON ETHICAL GROUNDS

In 2008 one SWF was a member of the UNPRI. The Norwegian Government Pension Fund–Global, with an estimated US$390 billion-worth of assets, is the world's second largest SWF after the Abu Dhabi Investment Authority. It highlighted its uniquely active ethical policy by selling its US$500 million stake in Rio Tinto, a leading UK-based mining company for potentially subjecting it to 'grossly unethical conduct'. Norway's finance minister, Kristin Halvorsen, said its concerns related to Rio Tinto's joint venture with US-based Freeport McMoRan, a company excluded by the fund in 2006, for a mining operation in the Indonesian province of West Papua. In a statement on the ministry's website, she said,

> Exclusion of a company from the fund reflects our unwillingness to run an unacceptable risk of contributing to grossly unethical conduct. The council on ethics has concluded that Rio Tinto is directly involved, through its participation in the Grasberg mine in Indonesia, in

24 Kevin Lim and Saeed Azhar, 'GIC has large cash pile, sees opportunities in US', Reuters, 23 September 2008; www.reuters.com/article/ousiv/idUSTRE48M3RT20080923.

25 Lim, *op. cit.*

> the severe environmental damage caused by that mining operation.[26]

The Grasberg complex is the biggest gold mine and third largest copper mine in the world. Environmental groups and local people are concerned with the environmental damage caused by dumping millions of tonnes of ore waste into the local river. Last year, a study published by the campaigning charity War on Want claimed that local people had suffered serious human rights and environmental abuses. Rio Tinto spokesman Nick Cobban expressed surprise to the *Guardian* at the Norwegian move, saying, 'Our immediate response is one of surprise and disappointment. We have an exemplary record in environmental matters—world leading, in fact—and they are given the very highest priority in everything we do.'[27] The *Guardian* also quoted Ruth Tanner, campaigns and policy director at War on Want, welcoming the decision to exclude Rio Tinto and challenging other funds to follow its lead: 'The Norwegian government has again put its money where its mouth is to ensure a real ethical investment policy. Now other pension funds should follow Norway's example.'[28]

The unprecedented level of investment transparency practised by Norway's SWF potentially makes it easy for other investors to follow suit and to leverage its global influence. Norway's SWF invests profits from oil and gas in a portfolio of around 7,000 companies around the world. The fund's ethical policy is based on applying to its investments the spirit of international agreements and ethical norms (such as ILO [International Labour Organisation] conventions) signed by the Norwegian government.

The bulk of the fund's ethical activity is in common with a growing number of public pension funds, largely based on engagement with companies in which it is invested. What sets it apart is the combination of the sheer size of its holdings and the ability and willingness of its Ethics Council (governed separately by the Ministry of Finance) to recommend shares for disinvestment. Of the 27 companies disinvested by Norway's investment programme on ethical grounds since 2005, the majority relate to governmental objections to certain types of military and nuclear weapons hardware. Boeing, Raytheon, Northrop Grumman and Lockheed are among the leading US arms companies excluded along with Britain's leading arms manufacturer BAE Systems, Thales of France and UK support services group Serco, which was removed in 2007 because of its involvement in the UK Atomic Weapons Establishment at Aldermaston.[29] The Norwegian Ethics Council has also disinvested from major companies for 'serious, systematic or gross violations of ethical norms', notably Wal-Mart for alleged complicity in breaches of international labour standards (including child labour, gender discrimination and the blocking of unionisation attempts). As the fund itself acknowledges, while disinvestment may continue to be applied in some high-profile cases, its preferred strategy remains engagement on a broad range of ethical issues.

As you may have noticed, this actively responsible approach from Norway's SWF is a form of politics: it derives from the interests of the Norwegian government in certain social and environmental principles. Therefore, its engagement in the development of the SWF code led to an interesting compromise, illustrated by the paradoxical Principle 19. It reads that 'The SWF's investment decisions should aim to maximize risk-adjusted financial returns

26 Terry Macalister, 'Investment: Norway offloads £500m of Rio Tinto shares over "unethical" mine stake', *The Guardian*, 10 September 2008; www.guardian.co.uk/business/2008/sep/10/riotinto.mining.

27 *Ibid.*

28 *Ibid.*

29 *Ibid.*; and Tarjei Kidd Olsen, 'Norway: oil fund finds ethical success', Global News Blog, 31 July 2008; globalnewsblog.com/wp/?p=316.

in a manner consistent with its investment policy, and based on economic and financial grounds', but then continues in a subprinciple that 'If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed', further qualifying that 'The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.' Principle 21 goes further in describing the nature of the shareholder activism and engagement that will be acceptable, saying, 'if an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments'. These principles limit the exercise of social responsibility from SWFs, including Norway, to approaches that have demonstrable financial benefits. As previous World Reviews have outlined, the 'enhanced risk management' approach to responsible investment is only one approach, with some recognising how individual savers, as human beings, have interests that extend beyond the financial, whatever timeframe is applied.

The code is what one would expect from a group convened by the IMF, given its ideological bias towards traditional financial disciplines, and the fact that this code was developed to defend SWFs from Western scepticism. A much-needed dialogue would focus on what active responsible ownership can look like when being pursued by SWFs from the Gulf or Asia, rather than Scandinavia. Just because the latter have been historically more active on their concerns for people in other countries, and come from a cultural and political tradition less complicated for the West than those from the Middle or Far East, does not mean that only their form of shareholder activism should be welcomed. Without such dialogue on what are universally acceptable ways of governments, or any organisation, pursuing their full range of interests through their commercial activities, this code will soon lose legitimacy among SWF nations, and, as world power shifts, may be increasingly ignored.

For now, the code means the SWFs are tethered to the shareholder-value paradigm and thus environmental, social and governance (ESG) concerns can be forwarded only in terms of enhanced risk management. Therefore, the opportunity lies in corporate responsibility advocates seizing on Principle 22's statement that 'The SWF should have a framework that identifies, assesses, and manages the risks of its operations' and promoting a fuller understanding of ESG-related risk management.

From CSR in Asia to Asian CSR

THE SHIFT IN POWER FROM THE WEST TO the 'rest' indicates a growing role for Asian enterprise, not only within Asia itself but also in the rest of the world. Consequently, the evolution of corporate responsibility concepts, policies, practices and initiatives across the region is important worldwide. In the last quarter of 2008 a flurry of conferences confirmed the growth of corporate responsibility as a topic of business interest in the region. Despite the economic downturn, Singapore hosted a number of these events, beginning in October with the Asia Pacific Academy of Business in Society (APABIS)[30] gathering academics and business people to develop this emerging network. The following month delegates amassed at the Asian Forum on CSR,[31] which focused on giving executives a platform to promote their corporate responsibility programmes, and then at the Global Social Innovators Forum,[32] which celebrated individuals who are innovating new approaches in both

30 www.apabis.org

31 www.asianforumcsr.com

32 www.socialinnovatorsforum.org

business and charity, to address public challenges.

The most content-driven event of the conferencing season was the CSR Asia Summit[33] in Bangkok, which brought together innovative practitioners from different sectors, chosen by the leading specialist consultants on corporate responsibility in the region, CSR Asia. The very growth of this organisation, now with dozens of staff in five offices, is an indicator of the development of the responsible business agenda. At the summit, Leontien Plugge of the Global Reporting Initiative highlighted that Asia is now the second largest reporting region, although this is mainly due to the high rate of sustainability reporting in Japan. As some Asian governments and stock exchanges had announced during 2008 that they will introduce requirements to report on CSR and sustainability, other countries' reporting rates are set to increase.[34] To gauge the general level of CSR disclosure at present, the 'CSR Asia Business Barometer 2008' was launched at the event. This report compares the CSR disclosure of the 20 largest listed companies in Hong Kong, Malaysia, Singapore and Thailand. Commenting on the results, CSR Asia's Executive Director Erin Lyon said that 'companies listed in Hong Kong demonstrate a superior quality of CSR disclosure' although 'the majority of companies listed in each of the countries have significant room for improved disclosure'. CLP (China Light & Power) came top of their ranking. A potential concern for the United Nations' efforts in this field emerged from the study, as Ms Lyon noted that Global Compact membership had no measurable impact whatsoever on the level of disclosure of companies in the region.[35]

The discussions at these conferences give some insight into the emerging dimensions of Asian CSR, as a global phenomenon, rather than just CSR in Asia. First, the philosophical bases for corporate responsibility are being discussed. Kasit Piromya, the Director of International Affairs of the Democrat Party of Thailand, and the Thailand representative of the Caux Round Table, spoke at the CSR Asia Summit about a parallel between Buddhist philosophy and CSR, owing to the emphasis on stakeholder interdependence:

> Buddhist monks live according to the principle of interconnectivity with the community and the environment; they are one with their stakeholders. Similarly, every individual belongs to an organization, and ultimately to society. So every individual, while working to earn a living and enjoy the rewards, is inter-dependent on the business community and society as a whole. Along with its stakeholders business is a part of a whole and thus the need for social responsibility and good governance. In particular, large multinational corporations have a global responsibility, and not only to their financial stakeholders.[36]

CSR ASIA EXECUTIVE DIRECTOR ERIN LYON: 'COMPANIES LISTED IN HONG KONG DEMONSTRATE A SUPERIOR QUALITY OF CSR DISCLOSURE'

33 www.csr-asia.com/summit08

34 Rikke Netterstrom, 'Sustainability reporting: it is painful, but gets easier', *CSR Asia Weekly*, Vol. 4 Week 47 (19 November 2008); www.csr-asia.com/upload/cover/703885681578.pdf.

35 'CSR Asia Business Barometer 2008: The State of CSR Disclosure in Asia'; www.csr-asia.com/upload/Barometer_Research_Brochure_2008.pdf.

36 Catherine Walter, 'Welcoming Remarks and Keynote Speeches', *CSR Asia Weekly* Vol. 4 Week 46 (12 November 2008); www.csr-asia.com/upload/cover/888330905168.pdf.

KASIT PIROMYA: A PARALLEL BETWEEN BUDDHIST PHILOSOPHY AND CSR

As Buddhism is one of the many spiritual traditions in the region, there is much to be drawn on in elaborating on concepts and motives for Asian CSR.

The second dimension to the evolution of an Asian CSR is the innovation that is occurring in CSR from within the region that may have a global impact. The conference in Bangkok hosted a workshop exploring a new initiative in reporting—imPACT. This approach brings together dynamic stakeholder engagement with a new approach to communication. Developed jointly by Edelman and CSR Asia, the imPACT philosophy is based on the understanding that many companies face critical societal challenges that they can play a role in addressing through outcome-oriented partnerships. Thus, CSR actions can be mobilised around issues such as climate change, water, human rights, poverty alleviation or health, so that companies become partners in addressing public need, rather than making minor improvements on a diverse set of issues aimed to benefit corporate reputation. Emphasis is placed on shared responsibility and joint accountability with the other organisations and sectors with which a company engages.[37]

A third dimension to the evolution of Asian CSR is the growing recognition within individual Asian countries of having the potential to play a global role. This was highlighted by the awards given out at the Global Social Innovators Forum (GSIF). The event was hosted by the Singapore-based Social Innovation Park (SIP), and focused on celebrating global leaders in social enterprise. Founder and President of SIP Penny Low said that

> SIP Fellow Awards recognize outstanding and high achieving individuals who are creating systemic change in the community that they live and work in. Role models in their own fields, these individuals are action leaders, who are shaping the future in their own way and by doing what they do best. They are the future world leaders of the globe.[38]

The Distinguished Fellow Award went to Jet Li, the Chinese actor, for his fundraising activities during 2008. One of the Fellow Awards went to Amit Wanchoo, Managing Director of Eaton Laboratories, for his work with the poor in Kashmir. In his acceptance speech Dr Wanchoo explained that 'in economically challenging times like these, social innovation remains more pertinent and relevant than ever'. He explained that 'social entrepreneurship brings together everyone's strengths to create the greatest social impact possible. I believe that collaborative innovations can help in sowing the seeds of positive change in this world for the well being of the whole humanity. We collaborate not as different sectors but as one people with one dream of a better world.'[39] In discussions with *JCC*, Penny Low recognised the significance of this growing international outlook: 'The SIP Fellow Award and the SIP Distinguished Fellow Award are the first Singapore-originated awards given to international recipients who excel in the field of social innovation.'

Although there is great potential for diverse approaches to emerge and impact

37 Mabel Wong, 'CSR Reporting through Project Partnerships: The Case of imPACT', *CSR Asia Weekly*, Vol. 4 Week 47 (19 November 2008); www.csr-asia.com/upload/cover/703885681578.pdf.

38 'Wanchoo gets SIP Fellow Award', *Rising Kashmir News*, 2008; www.risingkashmir.com/index.php?option=com_content&task=view&id=9133.

39 *Ibid.*

on the global experience of corporate responsibility, the development of CSR in Asia also poses a number of unique challenges. Currently, many Asian companies' voluntary engagement with the social and environmental performance of their business has been very influenced by the West. Therefore, at the conferences chronicled above, senior managers and government officials expressed the view that the main motivation for improved corporate responsibility is to achieve better relations with CSR-sensitive export markets. This approach can downplay or even ignore local stakeholder interests in the role and performance of business. The assumption is made that local stakeholder interests in business performance can be articulated through government, and, where that is not the case, that those stakeholder interests are not particularly valid. This view is a result of the dominant role of the state in many Asian countries and the variable, often weak, levels of civil society organising, media independence and political debate. This state of affairs may hamper the emergence of domestic CSR agendas in Asia.

Such an emergence may also be hampered by the imbalance in domestic voices involved in shaping the future of CSR. The evidence from these conferences is that the corporate responsibility debate in Asia is being influenced not by those who are directly impacted within the region, but by business leaders, government officials and high-society elites. This may be why, even now, CSR is most often construed by Asian business leaders as corporate philanthropy. This is highlighted by the fact that all of the 2008 Asian CSR awards went to philanthropic projects, bar the workplace award for Microsoft Philippines (a company that was not facing difficult workplace issues, does not have a trade union nor a systematic approach to checking what international labour standards apply to its operations). Further illustrating an emphasis on philanthropy rather than economic justice, at the GSIF most of the examples of 'social enterprise' were actually charitable activities involving some trading, such as the sale of charity-branded goods. The discussion of actions transforming core business practices on issues that have involved significant conflicts with affected stakeholders were conspicuous by their absence.

Although there are signs that at both conceptual and practical levels we are seeing the emergence of Asian CSR rather than simply more CSR in Asia, currently the majority of activities carrying the CSR tag are a mix of Western imposition and preening by local elites. If this subjugated dimension to CSR in Asia dominates practice, rather than a more organic emergence of ideas and innovations from dialogues and contestations of peoples from across the region, the loss will be both Asia's and the world's. One implication, therefore, is the need for greater awareness of the levels and nature of endogenous desire across Asia for socially progressive enterprise, and the relative roles of government, business and wider civil society in shaping and responding to that desire.

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