UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific

November 2012

MOVING THE CSR AGENDA FORWARD*

"Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders."

Cartoon by Tom Toro

---

* This paper was prepared by Marc Proksch, Chief, Private Sector and Development, Trade and Investment Division, ESCAP and Fabian Suwanprateep, ESCAP consultant.

A. SETTING THE STAGE: OUTCOME OF THE CORPORATE SUSTAINABILITY FORUM AND RIO+20

In Rio de Janeiro, prior to the 2012 United Nations Conference on Sustainable Development (Rio+20), the Global Compact Office organized the Corporate Sustainability Forum in cooperation with the Rio+20 Secretariat, the UN System and the Global Compact Network Brazil from 15 to 18 June 2012. The Forum brought together 2,700 business leaders, investors, academics, government officials, environmentalists and grassroots activists. At the Forum, 200 voluntary private sector commitments to the Rio+20 process were made covering areas ranging from low- or no-carbon footprints to re-forestation, business plans for subsistence farmers and renewal of clean, fresh water sources. After the Rio+20 Conference, these commitments had surged to over 700 out of which some 181 were from business. The criteria for commitments are (1) advance one or more UN goal/issue; (2) include time-bound target(s) that can be measured for success; and (3) include an agreement to publicly disclose, on an annual basis, progress made to realize the commitment, throughout its duration.

Sustainability is defined to consist of three pillars: (1) economic; (2) environmental; and (3) social. Delegates discussed sustainability in the following substantive areas: (1) energy and climate; (2) water and eco-systems; (3) agriculture and food; (4) economics and finance; (5) social development; (6) urbanization and cities; (7) education for sustainable development and responsible management education. In all these areas, issues related to innovation and collaboration were discussed.

Among the major results of the Forum were the following[1]: (1) the launch of a new corporate policy framework to assist companies in the development, implementation and disclosure of policies and practices related to ecosystems and biodiversity; (2) the launch of a social enterprise investment framework, designed for large corporations, institutional investors and Governments interested in incubating and scaling up for-profit startups and small enterprises with social and environmental missions; (3) an offer by

[1] Global Compact Office, "Rio+20 Corporate Sustainability Forum: Overview and Outcomes; Summary Report; available at (http://www.unglobalcompact.org/docs/news_events/2012_CSF/Rio_CSF_Overview_Outcomes.pdf)

business leaders to be part of the creation and promotion of new Sustainable Development Goals; (4) a communiqué signed by 45 CEOs of major corporations outlining ways of how governments can do better on water management and can set frameworks that will help business to scale up its own role in reducing usage and restoring natural sources; (5) a plan endorsed by nearly 300 institutions of higher learning to place sustainable development at the heart of college and university curricula; (6) an announcement by 16 companies and other stakeholders in the food and agriculture sector committed to lead the development of global voluntary business principles on good practice and policy for sustainable agriculture – to develop a common understanding and agreement on what resources and impacts are needed to transform markets and agricultural supply systems; (7) endorsement by over 70 businesses, Governments and international organizations of the Green Industry Platform, an initiative to mainstream environmental and social considerations into corporate operations through efficient use of energy and raw materials, innovative practices and applications of new green technologies; (8) the launch of a new platform to advance transparency and disclosure on gender equality issues in business by the Women's Empowerment Principles (WEPs), which are now endorsed by over 400 chief executives worldwide. In another recent development, a group of nine corporate titans, i.e. Coca-Cola, ExxonMobil and Delta Airlines, ManpowerGroup, Carlson, LexisNexis, NXP, Microsoft and Travelport, have decided to take action against human trafficking by forming the Global Business Coalition Against Human Trafficking (gBCAT).

ESCAP co-organized a session at the Forum entitled “A Changing World: Business as Unusual”. The session contained two panel discussions which discussed the ways business has to change their operations to address sustainable development. The principal outcomes of the session are reflective of the outcomes of the Forum in general and include the following: (1) businesses are part of the solution to sustainable development and need to shift their CSR attention from how to spend their money (on charity) to how they make their money (i.e. in a sustainable and socially responsible manner; (2) businesses have to move from traditional CSR to corporate sustainability and move from focus on shareholder to focus on stakeholder; (3) Governments have

responsibilities too and should provide an enabling environment for business to allow them to adequately address sustainability issues, including enforcement and implementation of laws and regulations and curbing corruption; (4) CSR efforts have to be visible and recognized to provide incentives to businesses to practice corporate sustainable principles; (5) There is an urgent need to move from talk to action. Time is running out; (6) Businesses need to adopt mandatory plans on the mitigation of adverse effects of their operations on environment and communities; (7) Partnerships are necessary at all levels, including between global organizations and local governments and institutions.; (9) The tone of dialogue between government and private sector has to change towards a language businesses understand and which creates mutual trust and cooperation; (10) Engaging all stakeholders is the best way forward to promote the concept of corporate sustainability; (11) Businesses have to be more aware of the impact of disasters on their operations and play an active role in the reduction of disaster risk and mitigation of disaster impacts on local communities. Business engagement in disasters needs to be properly coordinated.

The results and recommendations from the Forum are welcome and show increasing commitments and engagement of the private sector in the “Future we Want”, the theme of Rio+20, which would be impossible to achieve without the active participation of business. Only two decades ago when the United Nations hosted the Earth Summit in Rio, few companies were exploring the notion of sustainable business and the long-term impacts of their operations on the environment and society. Today, there are thousands of companies advancing corporate sustainability through a number of global initiatives. Most of these initiatives are led by the world’s leading Transnational Corporations which operate extensive global supply chains, including in the Asia-Pacific region.

A few examples, as revealed by the Global Compact, may illustrate this trend. As data centres eat up an increasing share of energy output, Microsoft says it will achieve carbon neutrality through offsetting actions. Unilever is launching a drive to halve the greenhouse gas impact of their products, and Nike’s target is zero discharge of hazardous chemicals along its entire supply chain, both by 2020. With the world facing a need to

double food production by 2050, DuPont pledged $10 billion in R&D for increasing productivity, scaling up nutrition and cutting back on food waste. DuPont will develop 4,000 new products along these lines by 2020. Also looking to product development, Proctor & Gamble promises $50 billion in sales of "sustainable innovation products" by the end of 2012, and H&M will upgrade to 100 per cent sustainable cotton – either organic, recycled, or certified -- in its cotton garments. Groups of companies are engaging in shared efforts. Forty-five companies, including Levi's, Pepsi and Coke are extending their commitments to water management and 23 companies pledged to transparency and disclosure on their impact on climate change. And numerous companies are taking action on the UN Secretary-General's campaign for Sustainable Energy for All**.**

Since the Rio conference, 20 private companies from 14 ESCAP regional member countries made just over 23 commitments in various areas which is just below 13% of all commitments made by private business world-wide. Some examples are ITC Limited of India which pledged to remain committed to carbon, water and waste recycling; Socentix of Indonesia which has committed to develop and to maintain an Internet-based investment platform to promote, profile, monitor, report and manage Socially Responsible Investing Funds. Other examples are SK Holdings of the Republic of Korea which has committed to enter into a partnership with the Global Compact Office towards the development of a Global Action Hub for social enterprises. Infosys of India has committed to become carbon neutral by reducing energy consumption by 50% and sourcing 100% of electricity from renewables. Sime Darby Berhad of Malaysia has pledged to improve food security and sustainable agriculture.

Despite these excellent examples, corporate sustainability has not penetrated the majority of companies around the world, in particular the small- and medium-sized enterprises (SMEs) which make up the vast majority of all companies, nor have we seen the depth of action needed to address the most pressing challenges. Another disturbing trend is the delisting of over 3,000 companies from the Global Compact since 2005, whose total membership is currently about 5,300 world-wide, with about a third comprising Asian-Pacific public and private business entities from both developed and developing countries, with no members from the Pacific Islands and very few from

Central Asia. Most companies and governments simply aren't doing enough to achieve the global acceptance of sustainability as a value proposition. To reach scale, economic incentive structures must be realigned so that sustainability is valued and profitable. This issue is of particular importance in the Asia-Pacific region. Companies in this region often do not have a good record in ensuring sustainability, putting growth and profits first. Only 16% of the participants in the Rio Forum were from the region of which two-thirds were from business. Of course, it is understood that the priority of business is profits and growth. Without such growth, many developing countries of the region would not have been able to develop fast and lift millions of people out of poverty. However, unsustainable growth will lead to massive costs and problems later. The air quality and traffic jams in Asia's leading cities already clearly demonstrate the predicament of the region. There are some exceptions and major Japanese and Korean enterprises have taken the lead in the region with the adoption of sustainability programmes. The challenge is to expand these programmes as part of strategic management of all companies, large and small and integrate them as the new "business as usual" throughout the whole supply chain.

B. THE EMERGENCE OF SOCIAL ENTERPRISES AND INVESTMENT

In some cases the demand to incorporate sustainability into the strategic management of an enterprise is taken even a step further, as illustrated by the emergence of social enterprises, a concept which took centre stage at the discussions in Rio. Contrasting business enterprises and social enterprises, the former are created with the primary goal to create profits and growth, while the latter ones exist to create social value and sustainable change while operating in a financially sustainable manner. Having sustainability built into its organizational DNA, regular business enterprises may very well benefit from studying social enterprise business models, as business enterprises are pursuing their own path to streamline sustainability into all their dimensions of work.

In parallel with the emergence of an increasing number of sustainable businesses, the sustainable investment sector is also gradually moving towards center stage. Sustainable investment can be defined as investment with the goal of creating positive

impact on society and the environment in addition to financial returns and has significant potential to contribute to the sustainable development agenda. While sustainable investment should not be understood as one particular kind of investment approach, it serves as an umbrella concept, capturing several investment models. Under this umbrella, socially responsible investment, social venture capital and impact investing are all examples of investment models which differ with respect to the degree to which they focus on contributing to development, by the types of investors that engage in the model, by the risk level the investments take, by the nature of enterprises that the model seeks to invest in, and by how much emphasis is put on financial and impact goals. However, all of them have are aiming to minimize negative effects, or create positive effects, on society and the environment.

The reason why sustainable investment is also gaining more and more attention is due to the estimates of capital that could be deployed towards the advancement of sustainable development. Already back in 2008, the Monitor Group estimated that the sustainable investment sector could grow to US$ 500 billion within the next five to ten years, which equaled an estimated 1 per cent of global assets under management in 2008.[2] Newer figures from a joint research initiative between J.P. Morgan and the Rockefeller Foundation from 2010 forecast a market size of profit potential ranging from US$ 183 billion to US$ 667 billion, and invested capital in the range of US$ 400 billion to nearly US$ 1 trillion.[3]

The actors in the field of sustainable investment who put this money to work range from family and corporate foundations, high net-worth individuals, government development agencies, development finance organizations, SME funds, institutional investors to private equity and venture capital funds. And while acknowledging that there are and always will be social and environmental problems that cannot be addressed through market based models, sustainable investing is now mostly focusing on a few

[2] Monitor Institute, 2008: Investing for Social and Economic Impact: A design for catalyzing an emerging industry; http://www.gbn.com/consulting/article_details.php?id=88.
[3] JP Morgan Global Research, 2010: Impact Investments: An Emerging Asset Class; http://www.socialfinance.org.uk/sites/default/files/JP%20Morgan.pdf.

selected sectors such as microfinance, clean energy, food and agriculture, affordable housing, education and water and sanitation.

While the emergence of social enterprises and sustainable investing clearly illustrates how far certain entrepreneurs and investors have come in furthering the sustainable development agenda, expectations, particularly with regard to financial returns need to be managed in order to avoid grand disillusions and expectations which could lead to a withdraw from investors and severely hurt the development of this promising industry.

C. TOWARDS A CONVERGENCE OF CSR INSTRUMENTS

In the meantime, while the sustainable investment field will without doubt develop further, changes on a different front need to take place as well. Against the backdrop of taking a more active rather than reactive approach when it comes to the role of business and the private sector in development, a shift away from the traditional concept of Corporate Social Responsibility (CSR) is necessary. Too many times, CSR has been simply a charity programme of leading businesses which made them look good, a marketing ploy rather than a systematic and integrated part of strategic management. As a result, new terms have emerged, such as corporate sustainability (CS), corporate responsibility (CR) or responsible business practices (RBPs). The idea behind this new terminology is to emphasize a shift from a mindset based on charity to a mindset which focuses on a new way of doing business, i.e. a way which incorporates sustainability criteria (linked to due reporting) as an essential part of corporate strategy on which the long-term survival of the business depends.

There are multiple international instruments to evaluate corporate sustainability or responsibility, including the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, the ISO 26000 standard on Social Responsibility, the UN Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the IFC Sustainability Performance Standards and the UN Global Compact (UNGC). There is a need for convergence of these instruments to reduce reporting requirements and

provide the right incentive for businesses to take sustainability serious and make it easier and affordable for them to report on their progress in this area.

An OECD-ESCAP Conference on this issue was organized as part of the Asia-Pacific Business Forum which was organized by ESCAP in Kuala Lumpur, Malaysia on 15 and 16 October 2012. The objective of the Conference were: (1) to highlight the new features of the recently transformed landscape of leading international CR instruments; (2) to show how this new landscape has resulted in a more convergent and coherent CR framework for companies operating in Asia and the Pacific; (3) to highlight the key features of the increasingly convergent management paradigm for CR: risk-based due diligence, reporting, stakeholder engagement; and discuss how business in Asia and the Pacific can implement and benefit from it; (4) to increase understanding of CR tools and provide examples of good practices by business in Asia and the Pacific; (5) to demonstrate how social dialogue and access to consensual and non-adversarial means such as mediation and conciliation can contribute to the resolution of societal issues linked to company operations; (6) to explore how “good offices” mechanisms such as that provided by OECD National Contact Points can play a constructive role in resolving corporate responsibility challenges in Asia.

The Conference concluded that convergence of CR instruments was useful as it reduced confusion, achieved more alignment and less deviance, contributed to more and deeper collaboration between stakeholders and cut costs in trying to comply with many different instruments. However it was also noted that proliferation of instruments is not always a bad thing as long as it does not confuse users and leads to greater CSR implementation. The Conference observed that there is not enough adoption of CR instruments in Asia and the Pacific and that there was a need for scaling up of these instruments. It was also observed that there were too many audits related to CR for the supply chains and that such audits do not necessarily indicate the true status at the supply chain and may actually be seen as non-tariff barriers to trade.

It was also observed that local instruments are important and may have more impact than international instruments. For example, the Singapore Stock Exchange guidelines have been very effective as companies "feel closer" to them. Other examples include the Green Mark label in Singapore and also the Chinese CSC 9000T management system and CSR Gate (reporting system with 201 indicators).

Other observations of the Conference included the following: (1) The priorities of companies remain financial and companies are often not convinced that there is a return on investment from engaging in CSR, in particular as CSR is expensive and requires a lot of investment and efforts; (2) Cultural differences hamper the adoption of CR instruments, especially in Asia where transparent reporting conflicts with some aspects of the local culture; (3) Interest in compliance remained low as the requirements were not compulsory by law; (4) Social dialogue was important but local cultures tended to avoid conflict and therefore there was not enough dialogue among concerned stakeholders on CR; (5) There was often a mismatch between local government and central government policies.

The Conference suggested that there was a need to simplify the CSR concept; help organizations make it easier for them to embed CSR; get instruments into action; and recognize the importance of the role of the Government. The Government can and should influence outcomes positively, e.g. in the way licenses and contracts are awarded. In particular, the Conference called for a mega linkage document for convergence, the need to develop more local tools and enforce a certification mechanism for CR. The adoption of international CR instruments should be obligatory and not be seen as marketing tools. There should be a shared social responsibility among all actors in supply chains which included observance to human rights. Furthermore, the impact of CSR on society should be measured in order to enhance the visibility of the concept.

With respect to the need for social dialogue, the Conference concluded that capacity building in problem solving is essential before actual and effective conflict resolution dialogues could take place. A shift in the mindset of the people involved in the

conflict resolution process was often necessary. It was important to work towards breaking down stereotypes and greater understanding of cultures and learning from people about their needs before acting. Finally, options for processes to prevent conflicts rather than just resolving them should be actively explored.

The lead article in this monograph provides an elaborate overview of the issues related to convergence with focus on the Asia-Pacific region and was presented at the OECD-ESCAP Conference during the Asia-Pacific Business Forum.