

The Asian SRI Business Case

Chair: Melissa Brown, ASRIA
Panel: Sunny Verghese, Group Managing Director and CEO, Olam International
Indraneel Roy, Asia Pacific Business Leader, Hewitt Associates
Leon Ku, Senior Executive Vice President, Taiwan Stock Exchange
Dylan Tanner, Managing Director, ERM Japan Ltd.

Sunny Verghese:

Olam, which deals in a variety of agricultural products sourced from many emerging markets and sold to customers mostly in the developed world, views itself as a “supply chain manager”. Its activities include sourcing, basic processing, distribution and factory vendor management.

The company has moved from “ethical compliance” – restricted to maintaining relevant tax and legal compliance, to making an “ethical contribution” i.e. donation of part of its profits to social causes, to today’s

goal of making a “social impact” in the places where it does business. For Olam, CSR must be more than PR or a way to attract young employees, but must have an effect on the ground.

Verghese pointed out that much of the CSR “noise” is just that. It only becomes meaningful where it creates a social impact. At the same time, Olam’s duty to its shareholders means that it cannot undertake social projects unless they have a direct impact on its business. The challenge for the company is to identify the cross-over areas, where a project will make good business sense at the same time as having a positive effect on the local community.

At the same time, he believes that the most productive way to encourage development in emerging markets is not to supply aid but to expand market access. He argues that developed world subsidies generate an enormous opportunity cost for emerging market countries.

“For us, CSR is about creating social impact, not PR” – Sunny Verghese

Indraneel Roy:

Hewitt Associates is a global human resources outsourcing and consulting firm, which is active in advising companies which look to outsource parts of their business. Relocation of manufacturing facilities overseas has been going on for at least two decades. The recent controversy about international outsourcing has been about moving “white collar”, service jobs offshore.

There is a prevailing mythology that offshore call centres are low-cost sweat shops and that it is quick and easy to shift thousands of jobs overseas. In fact, Roy argued that the establishment and operation of an offshore call centre is very challenging for companies: cultural differences among staff cause difficulties and staff turnover is extremely high.

Roy believes that CSR thinking has had an impact at many companies, where decisions on outsourcing are increasingly made at board or senior management levels. This means that the decision makers tend to look at more than just the short-term cost impact of the move. In addition to quality implications for the company in outsourcing, there is the issue of how to preserve its core values and culture when a significant percentage of its effective workforce is from outside the company. This, in turn, can lead to outsourcing providers making efforts to align their own cultures to that of their customers, in order to win the business.

Leon Ku:

Ku believes that companies in Taiwan tend to treat CSR as a PR issue and that most activity to date has been on peripheral issues.

However, regulators have been giving the debate much attention. For example, the Taiwan Stock Exchange is considering a plan to hold a conference on CSR later this year. Globally, in June 2004, ten stock exchanges, including Taiwan's, signed a pact to share information on the UN Global Compact with their listed companies and explore other ways to co-operate with the Compact.

Ku pointed out that it is extremely challenging to measure the costs and benefits of corporate behaviour, especially the externalities i.e. effects which occur outside the company itself. If companies and analysts cannot properly measure the rewards of acting in accordance with CSR principles, it is much more difficult to convince them of its usefulness.

"Preaching CSR is like preaching religion" – Leon Ku

[the inability to measure the costs and benefits] is *"putting companies to a blind test"* – Leon Ku

Dylan Tanner:

ERM Japan is a leading environmental consulting firm in Japan, which advises Japanese and Western global corporations. Tanner reported that the view from companies is that the only real way to deal with CSR is to incorporate it into the business of the company i.e. to focus on issues that will have a commercial impact on its business.

He suggested that CSR and SRI principles are essential to the proper analysis of investment risks and argued that a company that deals with environmental or social issues poorly may also handle other parts of its business poorly. Some companies do already include social, environmental and health and safety factors as they analyse their own risk profile. Tanner argued that top management needs to be engaged in this process and that companies should institute a formal process to look at these risks effectively.

A key issue for some companies in emerging markets is the potential risk of future legislation which may affect their activities. For example, regulation on land contamination has tightened in recent years. Companies may need to think about preparing for these changes by altering their behaviour today (especially if they believe backward-looking penalties may be part of new legislation).

Discussion:

The issue of how to balance a company's economic and social objectives was prominent with much of the discussion turning on issues of how companies can balance the pressure from shareholders for short-term returns versus the organizational challenges of implementing systems to address a sustainability agenda.