

The cover art features a large, stylized globe in shades of purple and blue. In the foreground, there are several blurred images of business professionals: a man in a suit looking at a laptop, a woman looking at a document, and two men in suits shaking hands. The text is overlaid on the globe.

proceedings of seminar on

# Corporate Social Responsibility

Kuala Lumpur • 2003



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**Federation of Malaysian Consumers  
Associations (FOMCA)**

*Gabungan Persatuan-Persatuan Pengguna-pengguna Malaysia*

# Foreword

We are pleased to present this report, from the first ever proceedings on Corporate Social Responsibility to be held in Malaysia. The event, organised as this year's theme for the National Consumer Convention that is held annually by the Federation of Malaysian Consumer Associations or FOMCA, was held over two days in Kuala Lumpur.

FOMCA's aim in organising this important convention is to introduce the issue to the Malaysian public, as well as to so many of those in the public and private sectors that are either totally unaware of Corporate Social Responsibility or CSR, or may have heard of the term but do not understand what it entails.

The 2003 Convention was therefore to "open the eyes", so to speak, and to start the process of making CSR a part of our daily lives in Malaysia. The convention, and from its proceedings this publication, are the start of things to come. In the years ahead, there will be a lot more programmes to bring knowledge and understanding, and eventually, the practice of CSR to the masses.

Work on a CSR programme for Malaysia has already started, with the Malaysian Institute of Marketing, on the initiative of its President, Datuk Sharifah Mohd Ismail, agreeing to host the Centre for CSR in the country. FOMCA will, of course, propose to play a key role in this Centre.

CSR is young, and its concept even in the developed countries is still evolving. We believe that dialogue and the exchange of ideas among all concerned parties in an atmosphere of mutual trust and cooperation will lead to the evolution of CSR standards in Malaysia, before such things are thrust upon us under trade liberalisation regulations of the World Trade Organisation and other developments arising out of globalisation.

We believe also that joint deliberations on CSR that we will continue to initiate, and the sharing of experiences among all the parties, will lead to increasing public awareness of the importance of CSR and eventually, the drafting of the Malaysian standard on CSR. In this, I wish to thank the Malaysian Institute of Marketing for helping us off on an uncharted course by agreeing to host the Malaysian Centre for CSR.



**MARIMUTHU NADASON** AMP, PJK  
Secretary-General, FOMCA

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# Programme

**21<sup>st</sup> AUGUST 2003**

- 8.00 am     **Registration of Participants**  
Arrival of Guest of Honour  
Y.B. Dato' S. Subramaniam  
Deputy Minister,  
Ministry of Domestic Trade and Consumer Affairs
- 9.00 am     **Welcoming Remarks**  
by Mr Marimuthu Nadason  
Secretary-General of FOMCA  
and President, ERA Consumer Malaysia
- 9.15 am     **Introduction**  
by Mr Stephen Loke  
President,  
Centre for Corporate Social Responsibility, Singapore
- 9.25 am     **Opening Address**  
Y.B. Dato' S. Subramaniam  
Deputy Minister,  
Ministry of Domestic Trade and Consumer Affairs
- TEA BREAK
- 10.15am    **Keynote Presentation**  
**Perspectives on CSR:**  
**Global Developments and Trends**  
Dr Kernaghan Webb  
Chief of Research and Senior Policy Adviser  
Canadian Office of Consumer Affairs

## Programme (cont.)

### **SESSION 1: CSR AND CONSUMERS**

- 11.15 am **Sustainable Consumption: The Consumer Psyche**  
Mr Stephen Loke
- 12.00 noon **Marketing in a CSR Environment**  
Mr Ong Tiong Hui  
Senior Lecturer & Section Head, Retail Management Section,  
School of Business, Singapore Polytechnic
- 12.45 pm **LUNCH**

### **SESSION 2: CSR AND GOVERNMENT**

- 1.45 pm **The Role of Government in Driving CSR**  
Mr Bill Dee  
Foundation Chair of the Association for Compliance  
Professionals of Australia and the Society of Consumer  
Affairs Professionals in Business

### **SESSION 3: CSR AND BUSINESS**

- 2.30 pm **CSR and the Bottom Line**  
Mr Brian Thomas  
Programme Director of Mt Eliza Business School
- 3.15 pm **CSR: Corporate Reputation and Communication**  
Mr Andrew Pirie  
President, Asia Pacific and Managing Director,  
Singapore, Weber Shandwick
- 4.00 pm **TEA BREAK**
- 4.15 pm **The Ethics of Information**  
Mr Damian Yeo  
Head of Foreign Relations,  
Centre for Corporate Social Responsibility,  
Singapore

## Programme (cont.)

5.00 pm **Q & A Session - chaired by Mr Stephen Loke**

5.30 pm **END OF DAY 1**

### **22<sup>nd</sup> AUGUST 2003**

9.00 am **CSR: Overall Malaysian Perspective**  
Ir Hussein Rahmat  
Environmental Technical Division, Institution of Engineers Malaysia

9.40 am **CSR: In the Perspective of Alam Flora**  
Mr Mohammad Siraj Abdul Razack  
Chief Executive Officer, Alam Flora Sdn Bhd

10.20 am **TEA BREAK**

10.40 am **CSR: In the Perspective of Tenaga Nasional Bhd**  
Mr Roslan Abd. Rahman  
Assistant Manager, Commercial Department, Tenaga Nasional Bhd

11.20 am **CSR: In the Perspective of ExxonMobil**  
Mr Rob Fisher  
Chairman, ExxonMobil Subsidiaries in Malaysia

12.00 noon **LUNCH**

12.45 pm **Panel Discussion**  
Chaired by Dato' Dr Mohd Ariffin Haji Aton  
President & Chief Executive, Sirim Bhd

Panel Members:

\* Ir Hussein Rahmat \* Mr Mohammad Siraj Abdul Razack  
\* Encik Roslan Abd. Rahman \* Mr Rob Fisher

4.45 pm **TEA BREAK**

5.00 pm **END OF DAY 2**

# Welcome Address

**By Mr MARIMUTHU NADASON**  
**Secretary-General and Chief Executive**  
**Federation of Malaysian Consumer Associations (FOMCA)**

*YB Dato' S. Subramaniam*  
*Deputy Minister of*  
*Domestic Trade & Consumer Affairs, Malaysia*

*Dr Kernaghan Webb*  
*Chief of Research and Senior Legal Policy Adviser*  
*Canadian Office of Consumer Affairs*

*Mr Stephen Loke*  
*President*  
*Centre for Corporate Social Responsibility, Singapore*



*Distinguished Guests, Conference Speakers, Ladies and Gentlemen:*

A very good morning to all of you. Welcome to this very important conference that is being organised for the first time in the country by the consumer movement.

I also wish to thank each and every one of you for your participation and contribution to this conference, which I consider to be the first of a series that will open all Malaysians to the issue of Corporate Social Responsibility or CSR.

As a federation of the consumer movement in this country, FOMCA deals with countless complaints and issues concerning the man-in-the-street - that is, your average consumer. Invariably, the issues that crop up in all of these complaints raise the principles of accountability and responsibility.

This is why FOMCA is taking on this education, this awareness role on CSR as our starting point in Malaysia. We have always been told by our Government that the Corporate Sector must be more socially responsible. How well is this term understood by the common man?

More importantly, how do corporations, large and small, see this issue? Do they accept that Corporate Social Responsibility is a matter that concerns everyone - their managers, their partners and shareholders, their workers, the regulatory authorities, the interest groups and the man-in-the-street?

People concerned with corporate codes of conduct and self-regulation, people concerned with multi-stakeholder initiatives towards a better, more responsible and accountable business sector, say that there can be no single or authoritative definition for CSR.

Nevertheless, there are some agreed principles of CSR. Some of these principles are that:

- A business is morally and socially responsible to the environment in which it operates.
- The process of production and provision of a service are as important as the product or service provided.
- This process is measured by the way in which a business achieves a balance between its goals and objectives and the economic, social and environmental objectives of the community in which it operates, produces for or services.
- Transparency, accountability and meaningful involvement of all stakeholders are vital.
- Issues of worker and consumer health and safety, labour relations, human rights, consumer rights, community development, environmental protection, corporate governance, sustainability, accountability and social justice must be addressed.

These are just some of the general principles involved. CSR is an evolving area of concern to consumers and if there is to be any progress in this area, business must accept that it is today accountable to everyone in society, not just its shareholders.

The last 15 years have seen tremendous emphasis on CSR in the developed world, particularly Western Europe and the United States. What is good for the goose must also be good for the gander, so we cannot have any argument here that CSR is something which applies only to the West.

What is important to remember is that CSR evolved not just because businesses wanted to integrate the economic, social, environmental aspects of their operation but also because in the rapidly expanding market, they wanted to proactively manage these aspects to achieve maximum advantages and minimise their exposure to risks.

Many changes in the global economy - trade liberalisation, expanding markets and market forces, self-imposed codes of conduct, privatisation and the changing or expanding roles of the State have impacted both business and the consumer.

There is growing realisation that laws touching on various aspects of trade and business,



## FOMCA

and production and services, in the countries of the developing world are being driven by the pressures and interests of the developed world.

We already see this happening - the North takes protectionist measures and flexes its economic muscle to demand that the South removes its trade barriers and commodity production subsidies.

We have the multinational and transnational companies that also flex their muscles, and win concessions from governments in the developed countries through their promises of foreign direct investment, employment and betterment of the local economy.

Economic muscle will not win friends in the long run. Piecemeal concessions or the accommodating of problems and publicity-generating philanthropic actions will not make society a better and safer place.

While self-regulation and acceptance of multi-stakeholder interests can go a long way for CSR in the developing economies, we believe that business must accept state regulations as well if the demand for corporate accountability is to be established as a right of all stakeholders.

Experience has shown that while the voluntary approach to CSR can divert attention away from mandatory regulations, such an approach never receives the desired participation.

Some global voluntary instruments have been put into place - such as the Global Framework Agreements between the TNCs and the International Trade Secretariats of the labour movement, under which TNCs commit themselves to respecting the rights of workers and establishing a complaints-based system.

However, these are not working because of many inherent problems. In practice, the capacity of trade unions at all levels to oversee the implementation of Framework Agreements is limited, while ITs are not able to muster the resources and muscle to deal with breaches.

In this day and age, it is not easy to believe that MNCs and TNCs will act out of the goodness of their hearts to assist in the social and economic development of poor or deprived nations.

As consumers, we want to be assured that Business is addressing the broader issues of importance to society; that it will meet certain social and moral obligations to society and not just pay attention to profit margins.

My appeal - the appeal of the consumer movement in the country - to both Government and Business is that let us work together in this area of CSR. Let us not waste time quarrelling about your rights and our rights, your needs and our needs.

Let us work together for moral and social responsibility and accountability. Let us join hands to make this community, in fact the global community, a better and more sustainable place for everyone to live in.

Thank you.

# Introductory Remarks

**By Mr Stephen Loke**  
**President**

**Centre for Corporate Social Responsibility, Singapore**

*The Hon'ble Dato' S. Subramaniam*  
*Deputy Minister*  
*Ministry of Domestic Trade and*  
*Consumer Affairs Malaysia*

*Dr Kernaghan Webb*  
*Chief of Research and Senior Legal Policy Adviser*  
*Canadian Office of Consumer Affairs*

*Mr Marimuthu Nadason*  
*Secretary-General, FOMCA*



*Distinguished Guests, Ladies and Gentlemen:*

Malaysia has, through the efforts of my esteemed colleague Marimuthu and FOMCA, taken an important step forward in organising this convention. This comes very soon after we in Singapore held a similar convention on Corporate Social Responsibility or CSR, at which many of our esteemed friends here, such as Dr Kernaghan Webb, Mr Bill Dee and Mr Brian Thomas also spoke.

I shall be speaking to you again later, so here I would like to just give a brief outline of what CSR is all about.

CSR is a new area of building positive relationships between corporations and communities. It concerns many of the issues that have arisen and continue to arise around us as we strive for civilised and dignified living.

These include transparent and accountable governance on the part of governments, transparency, responsibility and accountability on the part of corporations, respect for the environment, respect for the dignity of the individual, codes of good conduct and so on.

We have seen lately really huge scandals break out, which have given the spotlight, unfortunately, to the corporate sector. These instances involved big business, such as the WorldCom and the Enron scandals. However, CSR does not apply only to the corporate sector. It applies to all, governments and organisations like NGOs as well.

However, with the various developments taking place around the world as a result of globalisation, large and small corporations as well have to be seen to be more responsible, and more accountable, by the man in the street, that is, your average citizen.

As time goes, the voices for CSR will grow louder. That is why we should seize the initiative to start on our own CSR procedures. You in Malaysia have made a good start, and so soon after us in Singapore. I wish to commend FOMCA for taking the lead and I am confident that with energetic people like Marimuthu involved, the path to a Malaysian CSR will take form and shape quickly.

# National Consumer Convention 2003: Corporate Social Responsibility Opening Address

*By Dato' S. Subramaniam  
Deputy Minister  
Ministry of Domestic Trade  
and Consumer Affairs*

Mr Marimuthu Nadason  
Secretary-General  
FOMCA

Dr Kernaghan Webb  
Senior Policy Adviser  
Canadian Office for Consumer Affairs

Mr Stephen Loke  
President,  
Centre for Corporate Social Responsibility, Singapore



Honoured Guests, Ladies and Gentlemen:

Let me first of all congratulate the Federation of Malaysian Consumers Associations, or FOMCA, for taking the lead in initiating this conference on Corporate Social Responsibility. The subject matter is an important one, and the issues surrounding it are matters of concern, not just to those in the corporate sector, but also to all strata of society.

With the advent of information and communication technology, specifically the growth of communication via the Internet, and globalisation, the corporate organisation today faces a complex and dynamic environment. Communication and trade borders have withered. We are seeing demands from everywhere, including governments, that the corporate sector be socially responsible.

Corporate Social Responsibility or CSR is about how companies manage their business practices and processes to achieve an overall positive impact on society. Businesses today face a very wide base of stakeholders in the marketplace, workplace, the community and the environment.

These stakeholders – meaning anyone and everyone affected by their existence, activity and impact on society – include shareholders, employees, customers, trade unions, financial analysts, investors, Government regulators, non-governmental organisations, the local community and the news media. All of these people can put pressure on a business to be accountable.

Ever since the Enron and WorldCom scandals last year, outside stakeholders have been taking a greater interest in corporate activity. This is not to say that CSR is a new thing. Those outside the corporation will look at what the company has done, whether it is good or bad to them in terms of its products or services; in terms of its impact on the local environment and communities; how it treats and develops its workforce; its financial performance, the quality of its management and even its future performance.

We in Malaysia have had our share of scandals that broke out as a result of the irresponsible actions and misbehaviour of the people in charge. You may be aware of them, and this is not the platform for me to go into the details of these scandals.

It would be misguided to think that CSR is a matter only for those in the developed world. CSR has to be a commitment by business in Malaysia to behave ethically and to contribute to the economic development and well-being of the nation and the people, not just the people of Malaysia but also to people wherever the products or services of a business reach.

One of the many lessons learnt from globalisation is that there are businesses that have grown in power and influence, and can operate effectively with operations stretching the globe. These are the transnationals, the multinationals and even some NGOs.

Research carried out in some nations of Europe have shown that efforts at CSR have had a positive impact on an organisation's bottom line, in terms of improved financial performance, enhanced brand image and reputation, consumer trust and loyalty, increased employee motivation and productivity and even easier access to capital.

The Internet has made consumers more aware of social issues and of problems caused or created by corporations anywhere in the world. If environmentalists have been able to track the smuggling of gorillas from Cameroon thousands of miles away and through various checkpoints around the world to a small town like Taiping, imagine then what corporate watchdogs can do!

According to the 2001 Cone/Roper Corporate Citizenship Study, almost 79 per cent of Americans today believe that companies have a responsibility to support social

causes, and that they would frown on those companies that did not.

Many large companies in Europe and the United States are increasingly engaging in concerted efforts to define and integrate CSR into all aspects of their businesses. There is a proliferation of voluntary CSR standards and performance measurement tools.

Given our pace of development, we should not be far behind. It is best that companies in Malaysia start implementing CSR standards on their own, instead of waiting for the Government to initiate this, or for public pressure for regulations in this area.

We have learnt about instances of corporate arrogance, greed and irresponsibility of multinationals in Europe and the US, and of their adamant stance which led to consumer blockage of their production facilities and even the initiation and implementation of global boycott of the products and services of these multinationals.

I am sure that Malaysians will not be so militant in their reaction to corporate misbehaviour. Nevertheless, as business people, you will know that any expression of community or consumer disenchantment with a company's products or services can be very damaging indeed. Let there not be a situation where you will have to hang your heads in shame.

Even though action in the area of international rules related to corporate social and environmental performance has so far been slow, the signs are already there that this is set to change. Self regulation is not seen as working very well in Europe and the US, and there are now calls from NGOs and the academia for mandatory or State-led initiatives in CSR.

At this juncture, I would advise companies in Malaysia to adhere to the principle of self-regulation strictly. As for the consumer bodies, I would suggest that you look into how CSR can be increasingly adopted by the large global players in all areas of trade and commerce, manufacturing and services.

We do not want to be accused of creating barriers by enacting laws, though there is a lot to be done in correcting the imbalances and double standards in the global trade and policy regimes. This is where we can all work together – the corporations, the consumer bodies and the Government – to make this a better place for all.

Thank you, ladies and gentlemen. On this note, I now declare FOMCA's National Consumer Convention this year on the theme of Corporate Social Responsibility officially open.

# Keynote Address Perspectives on CSR: Global Developments and Trends

By Dr Kernaghan Webb

I would first of all like to state that I am not an employee of the International Standards Organisation or ISO, or of any standards body. I work for the Government of Canada, and I am just a government official, working to find new and more sustainable means of governance for the 21<sup>st</sup> Century. I am an academic interested in better understanding the way society orders itself. I am just a volunteer participant in efforts to explore the possible role of ISO in addressing issues on Corporate Social Responsibility or CSR.



## Defining CSR

There have been many attempts to give CSR a comprehensive definition, and this process continues. CSR is an evolving concept, involving the integration by firms of their economic, environmental and social aspects. It has come to the fore in light of the need for firms to proactively manage these aspects to obtain maximum advantage and to minimise risks. It has both legal or mandatory and voluntary aspects, and has important implications for all three - the private sector, governments and society at large.

There are a wide variety of initiatives currently in place, but they suffer from significant problems of interoperability. In spite of these problems, the analysis of trends suggests that the pressure for CSR is likely to grow, not abate, as time goes on. In light of this, there is an important role which could potentially be played by ISO CSR management

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*Dr Kernaghan Webb is an Adjunct Professor at Carlton University's Department of Law and School of Public Policy and Administration. He is also Honorary Lecturer at University of Dundee's School of Petroleum and Mineral Policy, and holds the position of Senior Legal Policy Adviser and Chief of Research for the Canadian Office of Consumer Affairs. He has written considerably on citizen roles in enforcement, the legal regimes for non-governmental organisations and on standards. In Canada, Dr Webb is lead participant in voluntary initiatives concerning the moving industry and consumer e-commerce and at the international level, he plays a key role in several International Standards Organisation (ISO) standards initiatives, including those pertaining to internal complaints handling, external dispute resolution, voluntary codes standards and corporate social responsibility.*



systems standards to provide an agreement upon an international rail guide for making CSR workable. While valuable ISO CSR management systems standards remain only one piece in the CSR “puzzle”, Asia should seize the opportunity to exercise leadership in CSR, for it has much to offer.

CSR is emerging as an issue of concern globally now because of the increased recognition that sustainable business excellence requires more than simply a focus on the immediate economic “bottom line”. There is increased concern about corporate conduct by consumers, investors, the community, the workers and governmental and inter-governmental organisations. Globalisation has also brought focus on CSR. Since an inter-connected world means global ethics, global standards and global approaches are needed.

The rise of the non-government movement as watchdogs of the rights and concerns of citizens, the rapid exchange of information through the Internet, and pressures from aid agencies, the World Bank as well as commercial banks have resulted in greater pressures on accountability from the corporate sector.

Opinion and other polls from around the world show that people are increasingly putting their trust in NGOs to safeguard their rights, and there is decreasing trust in the government in its ability to fully protect its citizens. Then, there have been countless widely publicised issues of corporate wrongdoing, such as Shell in Nigeria and those involving Nike, Snow Brand foods, Enron, WorldCom, Talisman, Rio Tinto and so on.

Until now there is no one universally accepted working definition for CSR, since it still is an evolving concept. CSR is the way in which a corporation achieves a balance or integration in its economic, environmental and social objectives. It is achieved in a situation where stakeholder’s expectations are also addressed, shareholder value is sustained or enhanced and the firm operates in a transparent and accountable manner.

CSR can also be seen as the contribution of business to sustainable development. It applies to firms wherever they operate, whatever sector, and irrespective of whether they are small, medium or large firms. CSR addresses worker health and safety, human rights, labour relations, community development, poverty reduction, environmental protection, consumer protection, corporate governance, anti-bribery, philanthropy and so on, and it encompasses both legal and voluntary aspects.

## **Key CSR Principles**

Good CSR is based on a foundation of values or ethics identified by the firm as representing what it stands for and aspires to in addition to consumer and shareholder

satisfaction. At minimum, these values and ethics involve adherence to human rights, worker rights and environmental rights. Transparency and accountability are critical in this.

Stakeholder engagement, both internal and external, and relations are key: Workers, shareholders, consumers, suppliers, supply chain partners, the community, government, and NGOs all need to be involved for there to be a corporation's integration of the economic, environmental and social aspects of its existence. Compliance with the laws of the land is a compulsory minimum.

## **Legal Aspects of CSR**

Public commitment to obey the laws of the land is a minimum, baseline requirement for CSR. In many jurisdictions, laws and/or enforcement are inadequate and therefore CSR involves the demonstrated ability to comply with the laws. In some nations today, new laws that are formulated require public reporting on CSR aspects.

The use of the CSR approach should ideally decrease the likelihood of non-compliance with the laws. For corporations, the use of the CSR approach can also help by acting as a due diligence defence in legal actions. Firms should appreciate that the complaints handling and redress aspects of CSR will work to decrease the need for government enforcement actions.

## **Voluntary Aspects of CSR**

Many aspects of CSR involve public commitments by firms which extend beyond those obligations found in law. These commitments, embodied in voluntary codes, address issues of importance to consumers, workers, communities, supply chain partners and governments. Voluntary commitments are articulated in consultation with affected stakeholders, and draw on recognised international instruments such as those of the United Nations (UN), the International Labour Organisation (ILO), the OECD and the Global Reporting Initiative (GRI).

CSR involves a demonstrated ability to implement voluntary commitments. Stakeholders must be involved in the verification of progress in meeting these commitments and this progress must be reported to all stakeholders and the public. The CSR approach may reduce the need for new laws if there is commitment on the part of the firms to meeting obligations beyond those included in law.

## **What's in it for Business?**

For business excellence, firms need social licence, not just legal licence. They need to avoid any loss of public and business confidence in their corporate brand. The likelihood of business disruptions and liabilities on the firm will be decreased if they take proactive political, social, environmental, legal and economic risk management. CSR also provides the opportunity for increased efficiencies and the identification of new product and service lines.

Overt practice of CSR can also serve to separate the good corporate actors from the bad ones, and will make the firms more attractive for workers as well as consumers. There will be the potential of expedience in its applications for permits and licences, and greater community acceptance. There will be decreased likelihood of new laws being formulated or imposed on firms with a good CSR track record.

## **What's in CSR for Consumers and Governments?**

The practice of CSR by companies will give the public, consumers and NGOs some assurance that these firms are addressing the issues of importance to broaden society. It is also a way of ensuring that the firms are meeting obligations that are beyond profit making. With CSR, consumers and NGOs also have the opportunity to engage directly with firms, without having to rely on mechanisms of the State to intervene. This may be important and useful in developing countries, where the capacity of the State to monitor and enforce even the basic requirements in law is weak.

As for governments, CSR practice means they may get assistance from such firms in meeting public policy objectives. There is also the decreased possibility of State reputation being tarnished by the activities of corporations, besides a decreased need for administratively intensive State intervention, in both law-making and enforcement.

The State and these corporations can be potential partners, working together to meet mutually supportive objectives. Both can also carry out "trial tests" of new approaches to the achievement of the economic, environmental and social objectives of the State and the firms. The State can also work with firms to develop tools that can complement the laws.

## **Current State of CSR**

There are a wide number of initiatives either in force or being undertaken by various

governmental and inter-governmental agencies, the industry, consumer groups and NGOs around the world to draw up CSR practice and standards.

These include:

- Inter-governmental: UN's Universal Declaration of Human Rights and Global Compact, ILO Declarations and Conventions, OECD Multinational Enterprise Guidelines, US-UK Human Security Principles;
- Individual governmental: UK Pensions Law, French CSR Reporting Law, the Securities Exchange Commission (SEC) of the US and the Belgian law, Sarbanes-Oxley;
- Investment driven initiatives: Dow Jones Sustainability Index, FTSE 4 Good, Domini, the California Pension Funds (CalPERS) and other pension funds;
- Standards initiatives: SII (Israel), BSI (UK, with partners), SFNOR (France), Mexico, SAJ (Australia). The ISO may also come up with standards for CSR - however, this is a long process;
- Industry initiatives: Business for Social Responsibility, World Business for Social Responsibility, International Chamber of Commerce, Responsible Care;
- Multi-stakeholder initiatives: Global Reporting Initiative (GRI), Fair Labor Association (US), Ethical Trading Initiative (UK);
- NGO-led initiatives: SA 8000, ISEAL Alliance, Forest and Marine Stewardship Councils; and
- Faith-based initiatives: Task Force of Churches for Corporate Responsibility (UK, US and Canada).

The existing initiatives demonstrate that there is considerable engagement and progress in CSR, and that it is of variable quality, content and comprehensiveness. There is more emphasis to date on CSR commitments and reporting, rather than on operationalisation. Inter-operability is also variable and the take-up of CSR by corporations globally is also variable: Less than 300 firms comply with each of the UN Global Compact, Global Reporting Initiative and SA 8000.

## **Possible trends**

The current problems with domestic and international government capacity to govern are likely to continue. There is also the potential for competing regional initiatives in CSR, such as the European vs. non-European approach. However, there is also the increasing likelihood that governments will make CSR reporting a requirement and encourage better CSR behaviour through a more systematic use of financial levers.

The proliferation of voluntary CSR initiatives will continue, followed by growing pressure for this by shareholders, investors and NGOs. There is also the likelihood that a gradual, global consensus on a single “label” and meaning for CSR will emerge, and that CSR will have a key role in the achievement of sustainable governance.

## **So, where are we now?**

Even good faith efforts will suffer in a confusing sea of initiatives for CSR and the lack of agreed-upon international approaches can discourage good behaviour on the part of business. This can also discourage consumers, NGOs, investors and governments from rewarding good corporate behaviour.

There is, at present, no agreed-upon international structure for the operationalisation of CSR. Competing interests will slow the momentum of the CSR movement, so what is needed is an internationally standardised approach to how CSR should function, and its management.

The need to recognise the different situations of the developed and developing countries, and the need to respect national sovereignty will be a major challenge to developing agreed-upon international approaches to CSR. So too will the need to respect differing cultures and cultural attitudes and to acknowledge that different industrial sectors have widely different problems and challenges.

There is a need to accept that the legal systems in each of the countries of the world vary considerably, and that priorities of industry can legitimately vary from firm to firm and location to location.

## **What can ISO management systems for CSR offer?**

Created in 1947, the International Standards Organisation or ISO has the standards bodies of 145 countries as members, of which more than 90 are developing countries. There are today more than 13,000 ISO standards in use around the world and it is only a matter of time before the ISO standards are recognised as WTO compatible.

The ISO initiative on CSR began in the year 2001, with the ISO Council asking the ISO Committee on Consumer Policy (COPOLCO) to consider a global standard for CSR. A report on the Desirability and Feasibility of ISO CSR standards was tabled at COPOLCO in the early part of 2002. The ISO Council recommended to COPOLCO that ISO 9000 and ISO 14000 be the foundation for the ISO CSR standards, and that an ISO CSR Advisory Group be established.

COPOLCO accepted the report and in June 2002 made a resolution to that effect to the ISO Council, which adopted the report and early this year established the ISO CSR Advisory Group.

In February this year, the Advisory Group recommended to the ISO Council that a Technical Report and Justification Study be developed for ISO CSR management systems standards, and this was endorsed by the ISO Council the following month.

ISO management systems for CSR can offer the flexibility to address the unique challenges of each firm, culture, sector and legal system. ISO management systems for CSR do not prescribe substantial norms: Performance obligations are set by each firm, hence the likely compatibility with requirements under the WTO TBT. A standardised plan-do-check-and-act model is used and therefore, there is a great potential for worldwide firm-to-firm inter-operability.

The ISO management systems also provide for an international rail gauge, since the global infrastructure for standards development and conformity assessment already exists and can be built on the widely accepted ISO 9000 and ISO 14000 platforms. The ISO systems are also compatible with and supplement other instruments such as those of the UN, ILO, OECD, GRI and the Caux Roundtable.

The ISO is the best inter-governmental body to formulate global CSR standards because it has a credible, international rule infrastructure, with full participation from consumer groups, developing countries, business and governments. ISO processes are WTO compatible and it has a proven global MSS operationalisation approach (ISO 9000 and ISO 14000). Third party verification of any ISO process is available if needed, and there is great potential for global CSR standards to be aligned with ISO 9000 and ISO 14000.

## **Five fundamental elements of a CSR management systems model**

These are:

- Identification and selection of relevant norms of behaviour
- Techniques for engaging stakeholders
- Process and systems to ensure effective in-firm operationalisation
- Techniques for verification of progress
- Techniques for stakeholder and public reporting

ISO CSR management systems can work if there is capacity building, impact assessment with a role for industry associations, structured stakeholder involvement,

management commitment and code development, training, communication, the provision of incentives and disincentives and provisions for whistle-blowing and conflict resolution.

Needless to say, there must also be procedures for implementation of CSR in the firm, with provisions for verification, reporting, stakeholder involvement and a process of continuous improvement of the ISO CSR management systems.

The proposed ISO CSR management systems model easily fits in with other initiatives for CSR because the UN Global Charter, the ILO declarations, OECD guidelines and even the domestic laws of most countries provide the normative backdrop for the model. The GRI provides the reporting framework while the ISO CSR management systems model provides the standardised structure for its functioning.

There have no doubt been some challenges to the ISO CSR management systems model and these include the perception that the model is simply “another code or standard that can be done without” or that the model “competes with existing initiatives”.

There is also the feeling by some businesses that the ISO 9000 and ISO 14000 do not work, besides the scepticism of the ISO and ISO processes on the part of NGOs. Within the ISO itself, there is some resistance to new management systems standards, concern over third party verification and unhappiness over the slow development process of ISO standards.

The ISO CSR management systems model will certainly be a more “softer”, flexible version of the ISO 9000 and 14000 and for it to succeed, stakeholder involvement is critical. There is a need to devise the model in such a manner that it works for firms of any size, and that it works in developing countries as well. The cost of third party assessment of the ISO model can be prohibitive and therefore, a possible role for industry associations needs to be looked into.

The next steps for ISO are the development of the ISO Technical Report and Justification Study. The possible outcome of this is the ISO CSR management systems model - but there is no guarantee that this will emerge. The ISO is a very democratic organisation with a voice for everyone and developing countries by their numbers alone can play a crucial role in it. ISO itself has to make sure that it engages everybody in the drawing up of CSR standards - the citizens, NGOs, governments, developing countries and inter-governmental agencies.

In conclusion, it can be said that:

- CSR is more than just ethics and philanthropy - both of these are integrated

into the practice of CSR

- CSR is a proactive risk management tool
- Stakeholder involvement throughout the process is of central importance
- There is a need for structured dialogue for the plan-do-check-act approach to CSR
- There is a need to make CSR a “mainstream” issue
- ISO represents accepted international rule infrastructure; it involves developing country participation, is compatible with existing global CSR initiatives and is generally compatible with WTO regulations
- ISO CSR management systems models are “third generation” standards, after the quality and environmental standards
- ISO CSR models are part of the solution, not the whole solution
- Since this is new territory, there is a move towards “softer” notions of responsibility for the part of business
- Nevertheless, there is no guarantee of the outcome of an ISO CSR model: the road ahead is long.



# Sustainable Consumption: The Consumer Psyche

*By Mr Stephen Loke*

We all should be familiar by now with the definition of “consumer”, so I shall not dwell on that. As for the consumer psyche, there have been many common phrases about it and the most popular one is that of the “kiasu syndrome” - the belief of the consumer that in everything, he must come first.



What is meant by sustainable consumption? Does it mean consuming differently and more efficiently? That can be a description. However, consumers are still very far from this situation. We can see it all around us, everyday.

Business provides for consumer wants. This is a demand and supply situation. Whatever the consumer wants in terms of goods and services, there are firms to supply them. Business reacts to the consumer, supplying whatever he demands.

Consumers are price-conscious; they are always looking for the best prices, the lowest prices, for goods and services. Therefore, consumers do not survive for business: it is business that survives for consumers. Sustainability is of no concern to consumers, for they have many choices. If one business falls, they can go to the next one. The consumer therefore only looks at the short term.

The question is, can there be sustainability if the consumer's bottom line is low prices? Can sustainable development be achieved? What happens with low prices is that the quality of the goods will be low. You can look at some of the goods from China, which has become such a mass producer of so many consumer goods, right from toys for children. Low price means low quality of materials, and low wages - hence exploitation of labour in the process.

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*Stephen Loke graduated from the National University of Singapore in 1986 and in 1990 set up his own law firm, Loke & Seah. He serves as President of the Centre for Corporate Responsibility, Singapore, a not-for-profit organisation established in April 2003. In 1997, he was appointed by the Consumers Association of Singapore to chair a committee looking into the possibility of promoting a Fair Trade law in the republic. In March 2001, he co-chaired a Task Force established by the Ministry of Trade and Industry to consider such a law. Loke is now working with the industry to push for higher standards to be delivered through the Consumer Protection (Fair Trading) Bill that Singapore proposes to enact. He was also the Singapore representative at the ISO/COPOLCO workshop on Corporate Social Responsibility - Concepts and Solutions, held in Trinidad in June 2002.*

This obviously means that fair prices will enable the long-term survival of a business or service, and ultimately build a path for sustainable consumption and sustainable development. There are many factors that influence price setting, and these include resources and their availability, transport, environmental factors, workers and wages, investment in production and so on.

Consumers want low prices. If that is the demand, then you cannot achieve sustainable development because business, when it starts producing the goods, will exploit resources and cut corners. Consumers want business to be accountable, to be transparent and therefore will support corporate social responsibility. Can CSR be achieved in such a situation?

Business excellence is what all firms want to pursue, for business excellence leads to higher consumer confidence. Business excellence will involve fair trading and competition law. We have cases in Singapore where firms organise "closing down sales" Some of these firms have several closing down sales in a year - I just don't know how they manage it. Then, there are those that close down in one area and then open again round the corner. These firms also claim to practise CSR, but for them it is more of a public relations exercise.

CSR requires a triple bottom line if it is to be effective - economic, environmental and social. How important is CSR for an environment of business excellence? The chicken first or the egg first? CSR first or business excellence first? Or the middle of the road? At this stage in the development of CSR, many would take the middle of the road. Where are you going to find the middle of the road for Malaysia?

So, is CSR important for the survival of a business? Yes it is, because consumers demand it, and consumers are business. The business of a firm is its lifeline to sustenance. However, for a firm to survive, it must get a fair price for its goods. Fair price means value for goods - and that's not going to be cheap. There may be brand value as well attached. If you buy a Dupont pen, you expect it to behave like a Dupont pen, and not like something you bought at the night market.

A fair price in the market would also have taken into consideration fair returns to labour, the cost of quality or an acceptable standard of raw materials, the cost of marketing the goods and also the ethical responsibility of the producers. At whose expenses are all these - the businessman's or the consumer's? Businessmen do not want to absorb everything - so who will pay for these added costs?

All businesses want to excel. How do you do this without raising overheads? Are the demands of the consumer for CSR and the needs of business to recognise this opposite or similar? Surely, no businessman will want to deliver something that is

going to destroy his business.

So therefore, this issue of ethical responsibility arises. Consumers are business and for a business to thrive, it means there must be consumers. Ethical responsibility is a joint responsibility. Back to fair price vs. low price. What does the consumer want?

Consumer psyche is very important. It can and will be changed, as the standard and quality of life improves. The consumer has to be educated about sustainability. The consumer has to consider the longer term. Slowly, but surely, he will understand that a fair price will contribute more in the long run to the life span of his goods and to the sustainability of our planet.

# Marketing in a CSR Environment

By Mr Ong Tiong Hui

*Marketing can best be defined as “a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others”.*



## Different marketing management philosophies

The marketing management philosophy holds that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors do. Four general concepts have been defined in the marketing of products. These are:

- The Production Concept is the philosophy that consumers will favour products that are available and highly affordable and that management should therefore focus on improving production and distribution efficiency.
- The Product Concept is based on the idea that consumers will favour products that offer the most quality, performance, and features and that the organisation should therefore devote its energy to making continuous product improvements.
- The Selling Concept comes from the idea that consumers will not buy enough of the organisation’s product unless the organisation undertakes a large-scale selling and promotion effort.
- The Societal Marketing Concept is based on the idea that the organisation should determine the needs, wants and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors do in a way that maintains or improves the consumer’s and society’s well-being.

*(From Marketing: An Introduction by Gary Armstrong & Phillip Kotler, 6<sup>th</sup> Edition)*

## Ethics-Profits trade-off matrix

This trade-off for business can be seen as a correlation between high ethical behaviour and low profit chasing - or chasing the big bucks and being low on ethical behaviour.

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It can be a tough choice for the businessman to take actions that are clearly ethical, but there is no real reward in doing it.

On the other hand, the businessman can also take actions that are highly profitable, but he has also to be careful in that he does not run foul of the law or of ethical codes demanded by consumers. He must not be foolish in chasing profit, so he will reduce the risks of getting caught.

## **Marketing ethics framework: An ethics continuum**

Different positions are taken in the ethics of marketing. It differs from country to country, and is also dependent on the different values held.

The ethics of marketing ranges from producer-bias to consumer-bias. At one end, it is marketing to favour the interests of the producer of the goods, which means that there is less attention to consumer interests or demands. This would be the situation of *caveat emptor* - or let the buyer beware. The producer's goal is profit maximisation, subject of course to all the legal constraints involved.

One step away from this is an industry-wide practice for production and marketing. This would be a general guideline adopted, usually by large companies, which they also publicise as the "best practice" of the industry, all done in the interests of the consumer.

Over the years, consumer group pressure has resulted in industry associations or professional bodies getting together to come up with codes of ethics that members are required to subscribe to. This may also be seen as an effort at self-regulation. Large multinational companies are known to adopt and publish their code of ethics as a means of proving their corporate responsibility to the consumer.

In the marketing profession, there is also this thinking on consumer sovereignty. The consumer is an informed, capable person who can depend on the product information available on the goods marketed, in order to make an informed decision or choice. This thinking places a measure of responsibility on the consumer - he has to know what he is getting into.

The other end of the continuum is the favouring of consumer interests over that of the producer of the goods. This is the school of *caveat venditor* - or, let the seller beware. Marketing here places emphasis on consumer satisfaction.

Some of the ethical issues in marketing tasks would cover the areas of marketing research, privacy, self-regulation and competitive intelligence. Marketing research is

always fraught with difficulties. There will be questions of your own integrity raised if you are going to be asking questions to collect information.

There will also be questions on the privacy of information about the subjects interviewed, and whether there will be self-regulation on the part of the industry. Then, what about the tactics employed in competitive intelligence, to find out about what the competition is doing?

Consumers today also demand ethical practice on the part of goods manufacturers. What is the policy of the company in product safety and design? What is legal in one country may not be so in another. In the case of product positioning, does it do what it promises?

Labelling and packaging are important anywhere we go. There must be a certain amount of information, such as ingredients and nutritional value, in food products, and so on. If there is a problem with a product, especially if it is a food product or medication, will the manufacturer immediately alert consumers and recall it? Or, if there are counterfeits in the market - which is quite common in Asia - will the people be alerted?

Other ethical issues concern the pricing policies of the manufacturer and the marketer. Consumers have complained of misleading pricing, such as slashed prices for closing down sales and the outlet concerned never closes down; anti-competitive pricing; price fixing (which is a criminal offence in many parts of the world); price discrimination and predatory pricing or what is commonly known as dumping. The dumping of mass produced goods in a place or nation that produces similar goods at a higher cost has brought about anti-dumping laws and practices.

Ethical issues in distribution policies include the disbursement of slotting allowances. In this, marketers are known to provide a premium to sales outlets such as supermarkets for the prominent display of their goods. In direct marketing, the ethical question often raised is the quality of the products and also, avenues for redress. Another area, network marketing, is also known as the pyramid selling scheme and though outlawed in many parts of the world, continues to thrive.

In promotion policies as well, ethical concerns have been raised. Among them are questions of legality, puffery or misleading attributes of a product and the morality of advertising directed at children.

# The Role of Government in Driving Corporate Social Responsibility

By Mr Bill Dee

As the earlier speakers have pointed out, there is no agreed definition on CSR. However, in looking at CSR in a number of areas, certain features emerge:



- The process of production is as important as the products themselves
- CSR involves substantive obligations to all of a firm's affected societal stakeholders
- CSR goes beyond legal compliance
- Transparency, public disclosure and meaningful stakeholder involvement are key
- CSR requires an integrated, consistent and comprehensive approach

## Core features

- Profitability - at the end of the day, the corporation should aim to return profitability to its investors and shareholders.
- Governance/ethics - the board and senior management should be accountable for their actions.
- Employee issues - issues such as child labour, forced labour, unreasonable disciplinary practices, unreasonable working hours, compliance with the law on wages and benefits, freedom of association (or trade union activity) and employment on basis of skills and not personal characteristics.
- Supplier issues - include ethical standards, legal requirements, environmental requirements, community involvement and employment standards.
- Health and safety - all health and safety issues in the workplace and living quarters if provided must be attended to.

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*Bill Dee's work in developing innovative self-regulatory practice for industry to strengthen the competitiveness of the Australian economy and to protect consumers was recognised by his government with the Australia Day award in 1998. Dee was also foundation chair for the Association for Compliance Professionals of Australia (ACPA) and the Society of Consumer Affairs Professionals in Business (SOCAP). He has extensive experience in compliance, consumer affairs and dispute management. Dee's experience in designing regulatory systems includes designing self-regulatory systems, dispute resolution systems and systems that mesh in with government regulation.*

- Environmental impact, impacts on host communities and compliance with regulatory systems are some of the other issues.

All of these factors can be identified through discussions with stakeholders, for stakeholder involvement is the key to the success of a company's CSR policies.

## **The role of government**

Most governments see their role as promoting the welfare of their citizens, and CSR systems can deliver welfare to citizens.

Some governments today are looking at less intrusive ways to deliver citizen welfare by promoting CSR, especially because there is decreasing faith in government's ability to enforce its regulations.

CSR is also being market driven, as public attitudes in many countries become less tolerant of companies that profiteer, pollute the environment, endanger health and practise exploitative employment policies.

Corporate reputation therefore is a valuable asset to the firm. An effective CSR system can raise consciousness on these issues within a firm and address them.

Some of the issues covered in CSR are made mandatory by governments, and therefore any company, even if it does not have a CSR policy, will have to comply. These include basic standards of employment and health and safety.

Others are considered desirable, which governments hope corporations will aspire towards.

## **Mandatory or voluntary?**

Every company is unique and the many studies done indicate that regulatory CSR tends to constrain a corporation. The arguments are strong that CSR should be voluntary, since commitment is important, and it drives CSR

I believe that governments should not mandate CSR. Promoting CSR as a voluntary initiative, allowing corporations to self-regulate is a way out for governments with shrinking budgets and a commitment to market-based solutions.

While self-regulation and voluntary initiative are not without some limitations, they can work well in certain situations. Governments considering regulations could best



ask themselves this question: What will deliver the maximum benefit to citizens in the most cost efficient way?

This may involve breaking out of ideological straightjackets and focusing on outcomes rather than processes. Ultimately, it will be the stakeholders or citizens who can determine what mechanisms are best at delivering the desired outcomes.

If business feels that government regulation is constraining, then it is up to it to make the case that markets can operate in the public interest, and how it will do this. Where business has a genuine commitment to CSR, there would be less need for government intervention and, at the very least, the nature of legislation would be some basic safeguards in health, environment and employment issues.

CSR can deal quickly with emerging market problems compared with government regulation. If there is an effective stakeholder feedback system in place, then the organisation should be attuned to these emerging issues sooner rather than later.

One of the disadvantages of sole reliance on CSR systems has been, compared with government regulation, the lack of coverage. However, having “safety net” laws can ameliorate this.

CSR systems therefore can operate “in front of” rather than “instead of” government regulation. To start the ball rolling, the government agency or the corporation needs to identify the relevant stakeholders, and set in place processes for on-going dialogue with them on what this CSR should be all about.

First of all ethical policies and procedures, such as a code of conduct, should be set in place. There ought to be a top-down commitment - a senior manager with CSR responsibilities who is given the clout and authority to formulate a CSR plan and implement CSR activities, provided the adequate resources and have an adequate report-back mechanism.

This should be backed by line/operational managers responsible for implementing CSR activities in their areas of responsibility, a middle management CSR coordinating committee and a continuous improvement policy.

This approach is not entirely novel, as CSR systems have a lot in common with the citizens’ charters which have been successful in delivering citizen welfare in the United Kingdom.

## **The role of government: Leading by example**

The government can of course initiate this by starting CSR in all its agencies.

It should develop a feedback system that is visible and accessible. Feedback data should be collected and classified and analysed for the identification and rectification of systemic and recurring problems, and internal and external reporting arrangements are a must.

Education and training of personnel in relation to the CSR programme are just as crucial. The organisation's commitment to, and implementation of, the CSR programme needs to be well publicised to employees and stakeholders.

Through ongoing internal auditing and assessment, compliance with CSR practices and procedures can be promoted, maintained and instances of CSR non-conformance identified for rectification. The programme should be reviewed at specified intervals to ensure that it is operating effectively and that it is still appropriate to the organisation's operations.

Ongoing involvement with organisations interested in CSR is required to keep the organisation aware of current CSR issues and practices, while reporting systems will ensure ongoing accountability.

The government should work with industry and stakeholders to develop industry-specific guidelines for CSR systems in each particular industry.

It can also show its commitment to CSR by giving preference to companies with credible CSR systems by allocating contracts to those firms that meet tender specifications and also have a credible CSR system in place.

## **Development of benchmarks**

Other initiatives governments can take to promote the development of standards or benchmarks that can assist organisations interested in setting up a credible CSR programme can be:

- Sponsoring annual awards for the most effective CSR system
- Funding a department or Chair in a university devoted to the study of CSR
- Funding of postgraduate scholarships and research projects
- Commissioning the writing of resource material on CSR and have it readily

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accessible for use (e.g. downloadable from a website)

- Organising conferences which are invaluable for the exchange of ideas and valuable networking opportunities.

To give you an indication of private sector support for CSR, I would like to quote the example of the University of Nottingham, where studies and research into CSR are funded by a private research grant.

I would like to conclude by saying that August 2003 has indeed been a defining moment for CSR, for important milestones for its development have been laid in Singapore and Kuala Lumpur.

Note: Those who wish to take this matter up further with Bill Dee can e-mail him at [compliance@ozemail.com.au](mailto:compliance@ozemail.com.au)

# Corporate Social Responsibility and the Bottom Line

By Mr Brian Thomas

## The bottom line

There are many bottom lines. Each of us has our own bottom line. Today, we live in a world where we can no longer easily find the resources we need.

Around us, we see companies trying to do business in a community that is angry with them, or having products and services that customers will not purchase.

It is becoming a situation where resources are scarce or cost more than we can afford to pay; where employees only do what they are told, that is, to follow procedures or rules. There is too much red tape to do things well.

On top of these, companies tell their workers to beat the competition, make profit and in the course of it, workers are often asked to do things that are not right.

For the workers, their bottom line is to meet the owner's needs. In order to achieve what the company wants and stay out of jail, but at the same time by not being excessive, they will only do the legal minimums and ensure the fiduciary responsibility is complied with.

A corporation's bottom line is to generate wealth and value for its stakeholders; to get the results, no matter how they are achieved - but there must be no bad news for the owners. The cost of doing business will be high when its suppliers, people and infrastructure are unreliable.

We can keep thinking up creative ideas, but cannot implement them and then, we realise that we have run out of money to pay our bills - because we are not producing quarter on quarter profitable growth in line with market expectations.



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*Brian Thomas is Programme Director at Mt Eliza Business School, a practice-based business education organisation. He has extensive experience in the fields of customer services, performance evaluation, innovation and business improvement. He has also helped to develop and update the assessment criteria for the Australian Quality Awards, now known as the Australian Business Excellence Framework. He is a regular speaker on performance issues and learning and mentors and coaches executives on confronting significant personal and organisational changes. Thomas is also director of Insight Outsight Pty Ltd.*

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If we remember that everyday above ground is a great day all the time, we will be mindful of looking after our health and the health of those around us.

So, to repeat, there are many bottom lines. The questions are, what is your bottom line, what do you value, what do your stakeholders value and what would they say if you asked them?

Corporate Social Responsibility or CSR gives us a heads up - a reminder of key things we might need to think about and incorporate as part of our strategic and operational work if we are to produce the best possible results today and into the future.

### **What is the purpose of a company?**

It is to create satisfied customers who perceive value. It is to take responsibility for its actions and to create value and wealth for all stakeholders. Most certainly, it is the goal of all companies to be around for the future; to do business into the future, through relationships that endure.

For this, companies must create satisfied customers who perceive value in it. They must take responsibility for their actions and create value and wealth for all stakeholders.

It is not the employer who pays the wages for the workers of a company. To quote Henry Ford: Employers only handle the money. It is the customer who pays the wages.

Without a customer there is no business. Customers are continually judging us, looking at our impacts and comparing us to other suppliers, even if we are a monopoly. Other stakeholders can influence customers.

Profits come from creating and satisfying customers with valuable products and services which can be priced appropriately.

### **The business basics**

Business operates for sustained and improving results. Business innovates to increase quality of products, services and processes. This is done by knowledge of its customers, consumers at large, markets and its stakeholders.

Success in business means having high employee moral. A business retains its workers by providing job satisfaction, where workers can take pride in what they do. Costs must also be kept down if the goods produced are to be competitively priced, and this means less waste.

With high performance of its workforce and production line, goods can be sold at the right price and therefore, increase the company's market share and its profits.

Trust is an important aspect for the company's acceptance by consumers. And there are several kinds of trust:

- Intentions trust - Where there is acceptance of the intentions of the company and of consumers towards each other
- Competence trust - Perceptions of each other's competence, in relation to the task and life in general
- Disclosure trust - The degree to which people feel able to share thoughts, feelings and information openly and without fear
- Contractual trust - Ability to make and keep agreements

In the ideal CSR working environment for a company, the company and its stakeholders will work in close knit environment with their partners - the suppliers, the customers, the community and the NGOs. Outside this "ring", operate the economic and regulatory forces and the competitors, after which come the government and regulators, society at large and global forces.

The market place, the workplace, the environment and the community are all components of CSR. Companies and governments are sometimes perceived as greed-driven and short-term focused. Growth is sometimes seen as consuming precious resources or disenfranchising people, therefore the people are always looking to ensure the security of these assets for future generations.

Companies can be different in the marketplace by using CSR principles. Soft capitals that take into consideration these resources by reducing raw material consumption, recycling and reuse, and care for the environment, are immeasurable and are becoming as important as the hard capitals. Soft capitals are lead indicators of future success.

We know that CSR considerations today influence purchasing decisions. There are growing expectations from staff, customers, consumers, government, investors and the community generally that companies should invest in the community - which is why triple bottom line reporting and governance models are being developed at a global level.

Some companies that have given importance to CSR are Westpac, McDonald's (Australia), Body Shop (Australia), BHP Steel, RIO Tinto, Thiess, CISCO, Macquarie Bank, Fairfax, Visy, Microsoft and Gippsland Water. All of these companies are still in business, and most are doing well.

## **Providing value to customers**

Value is the quality a firm gives to consumers for a given price, compared to real or imagined competitors. Everything is benchmarked by customers, even in monopoly situations and especially in a government's service offerings. Value to the customer means his requirements are fully met, he is satisfied and therefore, attracted to your service or product.

CSR will pay if it works. Implementing CSR does not mean high costs. Think of the other bottom lines vital to your firm, not just financial - such as reputation, trust and respect. Business is a complex matter, so, are you in a position to distill out the actual benefits to your firm in dollars amongst all the other initiatives taken?

## **Learning is your only sustainable competitive advantage**

The rate of learning, unlearning and relearning is a key. It is the basis of innovation. Experience is not about what happens to you but it's what you do with what happens to you.

Achieving business excellence is all about the value we provide while increasing the rate of improvement in the results and the way we work and get the results. CSR means providing value to the customers, the owners and the employees by partnering for value with our suppliers and the communities that sustain us.

To do this, a company must provide the innovative leadership, having a clear vision, mission and values; it must provide for the interests and concerns of all stakeholders, consider the needs of the community, ensure the quality of its processes (for products and services), have knowledge of the market and consumers' requirements and take responsible, transparent measures in dealing with consumers.

## **Who determines the future of the company?**

The company itself, providing it takes the responsibility and addresses the needs of all stakeholders - who can have a great impact if they withdraw their support. Pressure

from stakeholders, within and outside the company, will determine its survival into the future. The vital message here is that profits come from creating and satisfying customers with valuable products and services which can be priced appropriately.

Success means knowing that the customer matters, has a brain and is always looking at what you're doing. Success is all about people, and people experiment and do the work.

All work is a process and all processes have variation. The causes of variation are where the waste and dissatisfaction comes from for employees, customers and other stakeholders. If you want to improve results you must improve the quality of the end to end process and reduce the variation - each customer and employee is unique.

Unless you measure or review you cannot modify or improve. You need to generate trust to be a long term player in the market place - employees, customers, owners, communities, voters, suppliers ... you will have to earn the trust of all of them.

## **Excuses against CSR**

These are the commonly heard excuses from companies that do not understand CSR - or do not want to understand it:

- We are different
- It's additional to our daily work
- We are too small
- We have other priorities
- We are a monopoly
- It's another fad and if we hang on, it will go away
- We have to do our budgets and plans
- We are a government organisation
- We're too busy
- We don't have time
- We are already doing it
- Don't have time to think
- We have to fix mistakes

These are the people who have re-defined insanity - they continue to work the same way, and expect a different result. If you don't agree with the strategic choice, then what's your alternative?



## Get your bottom line with CSR

If you do not plan ahead, then your competitors will do it for you and drive you out of business. You have to be clear about what business you are in and why. You must have an absolute commitment to today's and tomorrow's customers and other stakeholders.

You have to plan for and be trustworthy. Only a fair trader uses the values of Corporate Social Responsibility as a guide for the future, and to inform his vision, values, decisions and actions to the consumer.

The informed producer develops his capabilities for innovation and excellence by using the knowledge and practice of business excellence. He adopts a process of continuous learning, innovation and improvement based on his knowledge of customers and the current and future needs and expectations of the marketplace.

The rate of improvement is the key - the faster you improve, the sooner your profits grow. Manage the processes you need to have for business success, while operating them with the minimum of waste and error.

Therefore, in summary, CSR works. To achieve CSR in your corporation, you must:

- Have a clear direction and achievement focus for all people.
- Be innovative: Openness, diversity, adaptability, experimentation and execution are valued.
- Understand and act based on the nature of variation in your systems and processes.
- Have goals, strategies and plans that translate organisational and business direction into actions.
- Provide value to the community through organisational actions to ensure a clean, sustainable, safe, fair and prosperous society.
- Think of the whole picture and work on the system. Think globally and act locally.
- Understand what customers value, now and in the future, and make knowledge of this part of your planning.
- Make effective use of facts, data and knowledge.
- Create trust and sustainability by delivering value for all stakeholders
- To improve the outcome, continuously improve the system and its associated processes.
- Value learning.

- Get all people involved. The potential of an organisation is realised through its people's creativity, enthusiasm, resourcefulness and participation.

The creation of a supportive environment to give life to these principles is necessary for people and organisations to reach their true potential.

## **CSR in the organisation**

This is the ideal situation, where the objective is to have customer satisfaction through having products and services that people are prepared to use and pay for, at a price where there is sufficient margin for today's and future requirements. All improvement stems from innovation and knowing what to do to achieve greater satisfaction, loyalty, effectiveness, efficiency and value in different customer segments and market places. Wealth for all comes from doing this well.

- The improvement process is led from the top and at all levels. The management and leadership style is consistent. Creativity, experimentation, adaptiveness and innovation are valued.
- Everyone is creatively involved in service and improvement; their efforts are focused, there is pride in work and a shared belief in the future of the organisation and in the ecosystems that it operates.
- Decisions are based on valid information. Problems and opportunities are tackled openly at all levels and in all functions. (Shared language and systematic and systemic problem-solving process).
- Work is seen as a series of interrelated processes. Process improvement involves design, control, simplification, reduction in variability and standardisation in order to increase customer satisfaction and minimise waste (costs). To improve results, all processes are challenged and improved.
- The organisation learns continuously from all sources. Mistakes are used constructively; messengers are never scapegoats. Learning does not hamper the ability to create new futures.
- The organisation is concerned with sustained competitive advantage, value for stakeholders, sustained profitability and is in the business for the long term. Its impact on society and the world leaves opportunity and not just more constraints.
- The personal and organisational values, which support all these things, are

identified by all people and lived from the top. Its views of progress are based on valid information.

Business excellence is part and parcel of the operational and the strategic work of an organisation. It is:

- About results and how to increase performance by thinking about and reinforcing or changing the “what, how and why”
- An expanding body of management and leadership knowledge for people responsible for organisational performance, and who want to get sustainable results
- A systemic framework for reviewing the rate of improvement in an organisation and identifying opportunities
- A benchmarking process
- A set of enduring and successful management principles
- A process for continuous learning and improvement

The following procedures outline the Continuous Improvement Approach for CSR:

- PRAXIS - Theory informs practice and experience which informs reflection which re-informs theory
- ADRI - Approach, Deployment, Results, Improvement
- PDCA - Plan, Do, Check, Act
- PDSA - Plan, Do, Study, Act
- PDRI - Plan, Do Review, Improve

# CSR: Corporate Reputation and Communication

By Mr Andrew Pirie

We have seen in recent times financial turmoil rock stock markets and financial capitals of the world, including the scandals involving the global accounting firm Arthur Andersen, as well as those that engulfed WorldCom and Enron.

One other party that has to be blamed for this is the media. During this period, a lot of criticism has been directed at the business media as well. Companies like Enron and WorldCom were their darlings - the business media built them up. So, naturally, there was also some soul-searching in the media as to what went wrong.

Then, there is that other great development that caught the media frenzy, the anti-globalisation movement. With it came globally organised boycott movements, such as the boycott of Starbucks and Nike. We are all familiar with the term, "Starbucks Sucks", and with the global campaign against genetically-engineered crops, and so on.

## CSR in Europe and US

Corporate Social Responsibility has taken a foothold in Europe and the US, and there has been rapid growth in the importance of CSR in recent years. There are an increasing number of companies initiating and communicating the CSR activities to the public.

There are structured approaches to CSR communication, such as the CSR Index, CSR report methodologies and organised discussion platforms such as Business for Social Responsibility, CSR Europe, Prince of Wales Forum and the World Business Council for Sustainable Development.



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## **FOMCA**

NGOs, and governments too, have told companies that they are now responsible for their products throughout the lifecycle, especially in Europe. For example, if you manufacture dry cell battery, you are now held responsible for its disposal as well at the end of its lifespan. Now, how does the company manage this? This situation has become very frustrating for many companies.

The media in general around the world has bought CSR hook, line and sinker. They, the media, are the true believers of CSR - and we know that journalists will almost always side with the underdog.

The media names and shames, by highlighting improper activities and pressure group action against unethical activities of companies. One example of this can be reporting on multinationals imposing unfair labour conditions around the world. They may be nice to labour in the home country, and break rules they hold dear in another.

As an information provider; the media is a powerful source for mobilising social awareness; and is able to force companies to respond and take action on complaints of abuses or unfair practices.

## **CSR Indices**

These are to measure the performance of companies that meet globally recognised corporate responsibility standards.

Companies are required to meet prescribed standards in environmental sustainability; they are to uphold and support universal human rights and they must develop positive relationships with stakeholders.

This of course excludes companies involved in “immoral” activities such as tobacco, weapons and the nuclear power industries.

Out of 609 companies in the Global Index, only seven from Asia (excluding Japan, Australia and New Zealand) in 2002 met globally recognised CSR standards. They are City Development, Singapore Airlines and Wing Tai of Singapore and Hang Seng, Hutchison Whampoa, MRT and PCCW of Hong Kong.

## **Dow Jones Sustainability Index**

Companies that get listed in this index are selected by an independent research firm, with verification by Price Waterhouse Coopers.

The procedure is stringent. Senior company representatives complete an annual questionnaire, followed by an analysis of company documents (CSR reports, annual reports, internal documentation, websites).

The next stage is a review of media reports on the company over past year, after which comes the follow-up questioning of the company management.

Out of 312 companies in Dow Jones' World Index, only eight from Asia (excluding Japan, Australia and New Zealand) made it to the list. They are

- Singapore: Singapore Airlines
- Malaysia: British-American Tobacco, Sime Darby
- Hong Kong: Kowloon Motor Bus Holdings, Li & Fung, MTR, Swire Pacific
- Taiwan: Taiwan Semiconductor Manufacturing

In the Corporate Responsibility Index launched earlier this year by the leading CSR group of the United Kingdom, Business in the Community, the top 350 companies in the UK and equivalent international companies were invited to participate in an online questionnaire format on CSR.

Business in the Community then ranked 122 companies, most of them UK companies and of these, more than half were listed in the FTSE 100 Index. The companies were ranked A, B or C for their CSR across five areas:

- Corporate Strategy and Integration
- Community
- Environment
- Marketplace
- Workplace

The straight "A" companies included 3M, AstraSeneca, Aviva, BT, Marks & Spencer, Shell and Six Continents.

## **CSR in Asia**

This is in the early stages of development, and around Asia there is a lack of awareness of the importance and relevance of CSR to corporate reputation. There is also no driving force for it - because of general apathy and a lack of Asian role models.

Besides this, there is a historical lack of CSR discussion platforms by pressure groups in the continent. If there is CSR in Asia, it is usually associated with corporate philanthropy, so the scope should be broadened to focus on ways of doing business.

Other reasons for this situation are that there is minimal discussion or reporting and benchmarking of CSR programmes. There is little or no interest in CSR in the media, which is more focused on business ethics.

However, CSR will come fairly quickly to companies in Asia, judging from the fallouts from the Enron and WorldCom scandals. Board members of large companies in Asia are discussing CSR as a result of the changing business and operating context. In Malaysia for example, British-American Tobacco is taking CSR seriously.

Increasingly also, people in Asia are starting to ask companies what they are doing in terms of their social responsibilities, and as a result, corporate reputation increasingly is being defined by socially and environmentally responsible business practices. This of course applies to the large corporations at the moment.

The emergence of global communications and the Internet as a universal and empowering tool is also making an impact on the corporate behaviour of companies. The reporting, accountability and social investment behaviour of leadership companies is having a ripple effect on others in an environment where stakeholders have become more discerning and vocal. And there is increasing pressure for CSR via capital markets.

## **Capital markets**

The Californian Public Employees' Retirement System or CalPERS is a pension fund with assets in excess of US\$130 billion (RM494 billion). In February 2003, CalPERS announced a "Permissible Equity Markets" policy for emerging markets.

Under this, it would weigh various considerations before investing in a country. Fifty per cent of the weighting for market assessment for investment would be for political stability, transparency in governance and the practise of productive labour policies while another 50 per cent would be on market factors.

Reaffirming this policy which was confirmed in February this year, CalPERS announced that it would not invest in a number of countries, including Indonesia and China in Asia. The Philippines was put as "below par" - which got Manila to go on its hands and knees to beg, since foreign investment was vital. Subsequently, the Philippines was put on a "watch list" and given a year to clean up its act.

What is important about this issue is that more and more global investment companies are asking countries in Asia about their policy on CSR. Stakeholders in these companies insist that investment dollars must only flow to countries that have a CSR policy.

Early this year, the International Finance Corporation, the private sector arm of the World Bank, issued the "Equator Principles", which are guidelines for managing social and environmental issues related to the financing of development projects.

Under these principles, the World Bank will only fund projects where borrowers can demonstrate sound CSR and environmental practices.

In June, 10 banks from seven countries - ABN AMRO, Barclays, Citigroup, Credit Lyonnais, Credit Suisse, HVB, Rabobank, Royal Bank of Scotland, West B. and Westpac - adopted the Equator Principles. These 10 banks together represent 30 per cent of the global funds available for development funding and last year, these banks underwrote US\$14.5 billion in project loans.

## **CSR and corporate reputation**

Reputation is a very important thing to a person as well as a company. CSR can mean different things to different people, but in the case of reputation, it is just good or bad. There are many components that go into the "reputation" of a corporation. Two key areas are:

Emotional appeal - that which gives people a good feeling about the company; leading to admiration and respect for it, even trust in it. This company has excellent leadership, a clear vision for the future and knows how to take advantage of market opportunities.

In financial performance, it outperforms competitors, has a record of profitability, is considered a low risk investment and offers good growth prospects. The company is a good place to work in, is well managed and has good employees.

It has social responsibility - it supports good causes, is environmentally responsible and treats people well. Its products and services are of high quality, provide value for money, the company is innovative and it stands behind its goods, services and employees.



## Business importance of CSR

CSR gives a corporation improved financial performance. Studies have shown this. For example, the Business Ethics' Best Citizen study showed that companies with socially responsible practices have superior business performance. The companies identified were also listed in the Standard & Poor 500.

Operating costs can be reduced through the adoption of environmental and recycling initiatives, while safe workplace initiatives and caring employee policies will reduce worker absenteeism.

Brand image and reputation will be enhanced. A 2001 study (Enviroics International CSR Monitor) showed that factors most influencing public impressions of companies were social responsibility (49%), brand quality/reputation (40%) and business fundamentals (32%)

Increased sales and customer loyalty is another positive factor of CSR. In a study, KRC Research found that 32 per cent of consumers in the UK say they have boycotted a product to make a political statement. An H&K/Harris Interactive poll showed that 79 per cent of Americans take corporate citizenship into account when deciding to buy a company's product

A clear CSR policy also increases the ability of a corporation to attract and retain employees. There will be reduced regulatory oversight for companies with a good reputation or standing with the public and these companies will find access to licences and approvals easier and faster.

Such companies will also have improved access to capital. Investment funds that now take social considerations into account before investing today exceed US\$2 trillion in the US alone, and this makes up about 12 per cent of the total managed investment assets.

An important lesson in how not to behave in a CSR environment is from the two air crashes in this region, weeks apart. The first is a crash by Singapore's SilkAir. The company avoids the media and instead, its lawyer issues a statement saying that "....under the Warsaw Convention, our liability is limited to US\$75,000 per passenger".

Next was a crash involving a Singapore Airlines crash in Taiwan. We see a very different picture. The chairman of the company appears before the media, takes responsibility and apologises humbly and profusely. He offers an immediate assistance of US\$120,000 to the families of each of the victims.

Notice the great difference in corporate behaviour. In Singapore, they were defensive, like saying, “hey, that’s different ... ours is a domestic airline ....the Warsaw Convention does not apply ...” and so on.

One year later, after many people had filed suits for millions of dollars in courts in the UK and the US, the SilkAir chairman apologises for the crash. But the damage has already been done. He admits in an interview that the company handled the issue very badly. SilkAir then offered US\$200,000 for each victim to families that wished to settle the dispute.

## **Effective CSR communication for positive brand image**

These would be steps a company would have to take, to communicate to the people the positive CSR policies that it is pursuing. The first thing to do is to take a global, holistic and long-term view of the CSR programme the company is to devise.

It has to take the big picture. The CSR policy is not just going to be what the company will do next month, it has to be what the company will continue to do in its long-term relationship with the people - the community in which it operates, for which it operates.

This means talking to your foes or opponents as well. For example, how often does the CEO of your company talk to people who are hostile to the company, its products or its services? Probably not at all - but some companies do - and one good example of this is British American Tobacco.

Some of the basic requirements of the company would therefore have to be to understand society’s and stakeholders’ expectations, which can be done through dialogue sessions and partnerships. Through these actions, the company can formulate baseline CSR objectives, policies and approaches relevant to its business and stakeholder priorities.

Companies must practice what they preach, and vice-versa. There must be actions not just words. Across all markets, and for all time, the company’s CSR policies must be consistent, and its communication should also be consistent.

## **CSR programme development**

There is a procedure to follow for a company to develop a CSR programme. First of all, there must be a CSR audit, followed by stakeholder mapping and dialogue, during which the company’s CSR objectives and policies can be established.

The next step is to establish the company's CSR programme, through

- Identifying current positioning/approach to CSR across the company;
- Understanding its social, environmental and economic impacts and resultant issues;
- Benchmarking against industry peers and international best practices;
- Understanding stakeholder perceptions, key values and expectations;
- Making CSR relevant to nature of business and stakeholder drivers; and
- Articulating and codifying CSR as a mandatory part of business practices.

The company's CSR programme must:

- Have buy-in from management
- Resonate with stakeholders
- Be implementable with resources
- Be communicated effectively internally

## What to communicate?

**Business ethics:** Goes beyond compliance to show how business and decision-making principles, employee commitment, corporate reputation and financial performance are influenced.

**Environment:** Goes beyond compliance and eco-efficiency issues to cover new market opportunities, stronger supply chains and business benefits.

**Community investment:** Goes beyond philanthropy and volunteerism to address commercial-community relations across business functions, from site selection and sourcing to product/service delivery.

**Marketplace practices:** Reflects how business handles issues such as advertising, consumer service, privacy and product safety.

**Workplace climate:** Reflects how policies/practices shape corporate culture and guide relations among staff, and between employer and staff.

**Governance and accountability:** Reflects transparency and accountability of senior management and Board of Directors in making business decisions impacting business performance, access to capital and marketplace reputation.

**Mission, vision, values:** Reflects corporate principles which impact corporate decision making, brand image and employee recruitment and retention.

## **Tone of communication**

**Transparency:** Full disclosure, openness and clarity to establish credibility and accountability to stakeholders.

**Visibility:** CSR initiatives should be both visible and seen as unambiguously beneficial by the maximum number of stakeholders for them to be considered relevant and worthwhile; media coverage and direct interaction with stakeholders are crucial.

**Inclusiveness:** The company should systematically engage stakeholders to help focus and continually enhance the quality of reporting.

**Auditability:** Reported data and information should be recorded, compiled, analysed and disclosed in a manner allowing auditors or assurance providers to attest reliability; these should also use performance indicators allowing benchmarking.

**Completeness:** All information relevant to economic, environmental and social performance should be reported within the declared boundary, scope and time period.

**Relevance:** Determined by usefulness of information to stakeholders' specific decision-making needs.

**Sustainability context:** Information should show how performance at organisational level is affected by economic, environmental and social capital formation and/or depletion at a local, regional or global level.

**Accuracy:** Both qualitative and quantitative information should be accurate, clear and balanced.

**Neutrality and comparability:** Information should be unbiased and strive for candour and neutrality.

**Timely:** Information should be provided regularly to meet users' needs.

To be a global player, a company should have a clear, public stand on issues of concern. For example, does your company have a policy on human rights? Does your company have a policy on Myanmar, which has been branded an international pariah for its gross abuse of human rights? Would your company invest in Myanmar? These are questions stakeholders would ask.

## Communication channels

- Standards, labels and codes of conduct
- Social and environmental reports
- Cause-related marketing
- Website information and releases
- Awards and events
- Internal communication
- Stakeholder consultation

It must be remembered that internal communication of CSR policies and practices are critical to ensure these are observed at all levels, and across all operations. Top managements should communicate CSR policies and practices externally in a way that boosts the company's reputation, for example by publishing and circulating its CSR Report and publicising its nominations for awards.

## Evaluation of CSR performance

An effective company will have an internal evaluation programme to ensure that its CSR objectives and targets continue to be met. It is important to communicate the successes and/or failures to meet targets to staff and stakeholders, as transparency of reporting is crucial. Besides internal performance audits, evaluation can be done through stakeholder surveys, media evaluation and by market assessment.

### Case study - Shell

The story of Shell is a good CSR case study. A powerful transnational company that in the past practised a high degree of corporate aloofness and secrecy, the plan to sink the toxic platform Brent Spar in deep Atlantic water put it under close scrutiny by environmentalists when the plan leaked out.

There were strong protests, particularly from Greenpeace. Shell denied that the platform was toxic, and maintained that sinking was safest and cheapest option.

It tried to dampen media interest in the issue, but Shell underestimated the influence of the media - and the role of the Internet. The Brent Spar platform issue was taken up globally by environmentalists, resulting in massive protests, consumer boycotts and negative publicity. Politicians also protested the move at the G-7 Summit in Canada in 1995 - and ultimately, Shell was forced to reverse its decision.

The Ken Saro-Wira affair was another in which Shell burnt its fingers badly. Saro-Wira was a Nigerian political activist who campaigned against oil pollution caused by Shell, and he was tried and executed by the government on allegedly trumped up charges.

The blaze of media publicity on the execution resulted in international protests against Shell's failure to prevent the execution of Saro-Wira and others. Shell launched full-page advertisements in the international media to defend its investments in Nigeria and its policy of non-interference in Nigeria's political process. This never worked - in fact, it led to international boycott from Shell's customers. Soon, Shell was ranked as one of the "world's top 10 worst corporations".

With shareholders angry and disappointment and frustration within the top management, Shell went through the denial-anger-bargaining-depression-acceptance processes in accounting for its corporate behaviour - and sought the remedy.

The catalyser to the process was that it had a convinced and committed chairman, willing to make his company accountable, and who had come to understand that the negative perception of the oil business was likely to continue - and to get worse.

Shell then undertook several steps towards a CSR policy:

- Research to understand expectations of all stakeholders;
- Modified internal structures to incorporate "long-term" and "diverse" thinking;
- Engaged every individual in the company;
- Approached issues strategically rather than tactically;
- Matched CSR objectives with business objectives; and
- Took step-by-step approaches within a clear framework.

The outcome of this exercise was that Shell in 1997 enacted general business principles for its companies worldwide, and issued a mandatory guide for internal management with commitment to protect human rights and sustainable development.

It defined the issues and dilemmas unique to its nature of business, and this was reflected in Shell's annual environmental reporting.

It accepted as vital regular dialogue with all stakeholders, and placed strong emphasis on communication: electronic forum, stakeholder forums, reporting and advertising.

It took just a couple of years for Shell to enhance its corporate reputation and positive

## **FOMCA**

brand image. Today, Shell is seen as tangibly contributing to sustainable development by partnering governments, NGOs and local communities.

Worldwide, the company has today won several CSR awards through trendsetting CSR practices.

## **Conclusion**

CSR is a visible and tangible corporate reputation driver. Many successful companies have found out that an effective CSR policy will yield positive brand equity, and that it makes good business sense.

The fast changing world under the WTO makes it increasingly imperative for Asian companies to formulate and articulate CSR policies. CSR communication should be governed by stakeholder dialogue, transparency, visibility and auditability.

CSR should be substance and action, not style and spin.

# The Ethics of Information

*By Mr Damian Yeo*

What Corporate Social Responsibility is all about has been dealt with by the earlier speakers, so I shall not spend too much time on that, except just to emphasise that CSR for a company is all about its core values.

A work group of the World Business Council for Sustainable Development (WBCSD) identified the constituents of CSR as human rights, employee rights, environmental protection, community involvement, supplier relations, monitoring and stakeholder rights.

Human rights are the universal rights that every person is entitled to enjoy and to have protected. These rights are fundamental principles that should be respected in the treatment of all men, women and children, and they exist in some form in all cultures and societies.

Such rights are enshrined in the Universal Declaration of Human Rights, adopted by the United Nations in 1948. The declaration covers two broad sets of rights: Civil and Political Rights and Social and Cultural Rights.

The WBCSD also identified a number of sub-issues: Female/women's rights; inter-generational equity; indigenous people's survival rights; freedom from oppressive regimes; gay rights; disabled persons' rights; and freedom of speech.

The WBCSD suggested to Business that:

- Companies should publicly and explicitly express support for human rights and provide awareness and useful information for all staff.
- It is legitimate for a company to operate in all countries provided it supports human rights, creates an "island of integrity" around its operations (employees' families and the local community) and that it speaks out on these issues
- Companies should keep human rights on the operations "radar", be aware of what is happening in the other parts of the world and in different business sectors, and learn from others' good practices.

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- International conventions can provide valuable guidance on their duties and responsibilities.

## **Growing significance of privacy and data protection**

Privacy has emerged as a critical consumer concern in the late 1990s. The rapid growth of the Internet, along with the mushrooming of technology that allows companies to gather, analyse, and disseminate information about consumers' lifestyles, purchases, and habits, has created a myriad of new products and services used to market and sell information about individuals.

In addition, government agencies, hospitals, insurance companies, schools, and others are collecting and archiving vast amounts of information about the individual's health, wealth, and behaviour, giving rise to new and expanded concerns among consumers and activist organisations.

These developments are seen as invasions of their privacy and unwanted intrusions by marketers into their daily lives. The worries of the citizens centre on the potential uses - and abuses - of information by companies, government agencies, non-governmental organisations, the media and interested individuals.

Privacy issues raise a variety of challenges for companies that seek to ensure they are both collecting information ethically and that their collected information is not used in ways that might infringe - or be perceived as infringing - into the individual's right to privacy, either directly by the companies themselves or by those who, legitimately or otherwise, might gain access to this information.

Many companies are responding to these challenges with policies and practices that proactively disclose to customers what information is being collected about them and how it will be used. In many cases, companies are giving individuals the ability to "opt out" of having information about them collected or disseminated. In other cases, companies are significantly restricting their data collection about individuals, or placing limits on how collected data are used.

Personal privacy and data protection are becoming growingly important because of:

- Increased usage of the Internet and Intranet; the sharing of data and access to it, both internally and externally;
- Increased introduction of worldwide systems and databases containing personal data;

- Improving technical tracking capabilities of different fixed and wireless networks;
- The expansion of wireless location-based services is increasing the volatility of the privacy debate;
- Growing global awareness of privacy issues and data protection laws, and
- Recognition that respect for the individual is a key component for socially responsible businesses.

The implementation and awareness of European Union directives on data privacy are gaining momentum. Privacy is increasingly a hot topic in the US and Canada, while organisations in Asia are becoming more and more active in privacy issues. Many countries have dedicated data protection/privacy authorities.

Workers' organisations may get more active in certain countries as the invasion of privacy and the misuse of personal data become more prevalent. There is increasing risk of negative publicity, claims for damages (such as the class action suits in the US), penalties and even criminal convictions if we fail to act properly.

All these have brought about an increased need on the part of individuals and organisations to become active participants in steering the data protection and privacy issues globally.

## **Privacy - business and societal trends**

The growing interest in consumer privacy dovetails with a variety of other business and societal trends. Among them:

- A perceived sense of intrusion
- Increased targeting of children and teens
- Increased government concern
- Trade disputes over privacy
- Increased industry self-regulation
- Concern over medical record privacy
- The growth of consumer loyalty campaigns
- Investor concerns
- The growth of unwanted e-mail
- The growth of new and sophisticated technologies

(Source: Business for Social Responsibility - [www.bsr.org](http://www.bsr.org))

## **Corporate social responsibility, ethics and privacy**

Ethical behaviour on the part of corporations in issues of personal privacy and use of data on consumers will build their reputation, and trust in them. There will be reduced government oversight, and such corporations can also seek protection against negative consumer actions.

Ethical corporate behaviour will inhibit and check the spread of abuses in the system, and can have a positive effect on the acceleration of electronic commerce. There is no such thing as social licence in the abuse of personal data.

(Source: Business for Social Responsibility - [www.bsr.org](http://www.bsr.org))

## **Privacy and data protection in the Asia Pacific**

There is increasing regulation on the use of personal data in Asia. Countries like Australia, New Zealand, Japan, South Korea, Malaysia, Singapore, India, Thailand and the Special Administrative Region of Hong Kong in China have all taken steps towards this or are taking steps to legislate the protection of personal data.

International regulations on privacy and data protection include the OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data (1980) and the EU Data Protection Directive

## **APEC Privacy Charter Formulation**

As Asia-Pacific Economic Council ministers acknowledged in endorsing the 1998 Blueprint for Action on Electronic Commerce, the potential of electronic commerce cannot be realised without government and business cooperation *“to develop and implement technologies and policies which build trust and confidence in safe, secure and reliable communication, information and delivery systems, and which address issues including privacy ...”*.

APEC economies realise that a key part of these efforts must be cooperation to balance and promote both effective privacy protection and the free flow of information in the Asia Pacific region.

The Internet and information and communications technologies, including mobile technologies, have made it possible to store, collect and access information from anywhere in the world. This represents a tremendous opportunity for business,

individuals and governments.

However, while these make the collection and use of personal information easier, cheaper and less centralised, they also often make these activities undetectable to individuals. As a result, individuals have become concerned about the harmful consequences that may arise from the misuse of information about them. Therefore, there is a need to promote ethical and trustworthy information practices in on- and off-line contexts to affirm the confidence of businesses and individuals.

## Malaysian Legislation and Codes

1. Personal Data Protection ("PDPA") Bill (Draft)
2. General Consumer Code of Practice for the Communications and Multimedia Industry Malaysia (Draft)

The Ministry of Energy, Communications and Multimedia has released a draft Personal Data Protection Bill ("the Bill") for public comment.

The Bill aims to regulate the collection, possession, processing and use of personal data by any person/organisation ("the data user"), including the government, so as to provide protection to an individual's ("the data subject's") personal data and safeguard the individual's privacy. The legislation will also establish a set of common rules and guidelines on the handling and treatment of personal data by any person/organisation.

### Genesis of the PDPA

Drafted by the Ministry of Energy, Communications and Multimedia, the draft Bill has been opened for public consultation and feedback. This is a first for Malaysia, in that this is the first time public feedback is being sought for a law that is to be enacted by the government.

The ministry is now reviewing the public feedback and there has been no feedback on whether the draft Bill will be amended. The timetable is very fluid - the Bill was originally targeted for tabling in Parliament in 2001. Nevertheless, there are further steps required before tabling in Parliament - the Bill has to be given approval by the Attorney-General's Chambers and also by the Cabinet.

The stated objectives of the Bill are:

- (i) to provide adequate security and privacy in handling personal information;
- (ii) to create confidence among consumers and users of both networked and non-

networked industries;

(iii) to accelerate uptake of e-transactions;

(iv) to promote a secure electronic environment in line with the objectives of the Multimedia Super Corridor.

## **Data Protection Principles**

The collection, holding, processing or use of personal data must comply with the nine Data Protection Principles:

- (1) Manner of collection of personal data
- (2) Purposes of collection of personal data
- (3) Use of personal data
- (4) Disclosure of personal data
- (5) Accuracy of personal data
- (6) Duration of retention of personal data
- (7) Access to and correction of personal data
- (8) Security of personal data
- (9) Information to be generally available

The PPDA applies to all “personal data”. The proposed law defines it as “any information recorded in a document in which it can practically be processed wholly or partly by any automatic means or otherwise which relates directly or indirectly to a living individual who is identified or identifiable from that information or from that and other information in the possession of the data user, including any expression of opinion about the individual and any indication of the intentions of the data user in respect of that individual”.

That means the PDPA applies to all data users, including any persons and organisations, the private sector and government; it applies to data on-line and off-line and to those who control the collection, holding, processing or use of personal data. It excludes anyone who handles or uses personal data solely on behalf of another, for example, Internet service providers.

## **Malaysian cross-border data transfer regulations**

Personal data which is collected, held, processed or used in Malaysia or is controlled by a data user with a principal place of business in Malaysia can only be transferred

outside of Malaysia if the place is specified by the Minister. The place must have substantially similar law or the place must have an adequate level of protection for personal data.

There are of course various exceptions, and they are that the data can be transferred if it has the consent of data subject, the transfer is deemed “necessary” and if the recipient of the data is subject to a contract which upholds the PDPA.

Under the Personal Data Protection Bill, failure to register under law makes one liable to a fine of not more that RM200,000 or imprisonment for not more than three years or both. Failure to comply with enforcement notice from Commissioner will mean a fine of up to RM250,000 or imprisonment for not more than three years or both.

## **General Consumer Code of Practice for the Communications and Multimedia Industry Malaysia (Draft)**

### **General Principles**

A service provider may collect and maintain necessary data/information about consumers for tracking practices. However, the collection and maintenance of such data/information shall follow the following good practices:

- (a) Fairly and lawfully collected and processed;
- (b) Processed for limited purposes;
- (c) Adequate, relevant and not excessive;
- (d) Accurate;
- (e) Not kept longer than necessary;
- (f) Processed in accordance with the data subject's rights;
- (g) Secure; and
- (h) Not transferred to any party without prior approval from the subject.

## **Malaysian Communications and Multimedia Commission Discussion Paper on Regulating Unsolicited Commercial E-mail Messages**

This discussion paper dated Aug 7, 2003 outlines an action plan which proposes a four-tiered approach to regulating spam or unsolicited e-mail: Self Regulation - Service Provider - Consumer Forum - Commission.

This move arose because of growing concerns around the world about spam, privacy

of personal data and increasing electronic crime. The cases involved have been widely publicised, and they involve major players like GeoCities, Doubleclick and Eli Lily.

GeoCities, one of the 10 most visited US websites, was a virtual community that hosted members' home pages and provided other services to its 1.8 million members. It ran foul of the US Fair Trade Commission (FTC) in 1998 for failing to live up to its privacy policy by selling or renting data about members to third parties. GeoCities became an example to promote the FTC's Fair Information Practices. GeoCities also agreed to a Consent Order prohibiting it from misleading consumers about its data collection, use or disclosure practices and from misrepresenting who was collecting personal information.

Doubleclick, a leading on-line advertising company, tried to create corporate synergies by buying up Abacus Direct for RM2 billion. The aim was to merge the huge database of information on US households that Abacus had with Doubleclick's direct mail on-line advertising business. A consumer privacy backlash created a storm of concern, with US government investigators stepping in, and a public relations nightmare from which Doubleclick never really recovered. Doubleclick finally announced that it would not use the Abacus database and settled the FTC and various State Attorneys-General investigations by paying fines in excess of RM52 million. So, the purchase of Abacus was RM2 billion down the drain for Doubleclick.

Eli Lily ran an e-mail reminder site to remind users of the medication Prozac to take their medication or refill it. In 2002 it decided to discontinue the service and an Eli Lily member created a new program to inform subscribers of the termination of the service. In the "to" line of the e-mail, the addresses of all 669 subscribers were put in - and Eli Lily faced action from the FTC for a security breach that caused it to "accidentally" disclose the e-mail addresses of people who took Prozac. It also agreed to establish a security programme to protect consumer data against reasonably anticipated threats to its security, confidentiality and integrity.

So it all boils down to trust. What corporations, large and small, have to do is earn consumer trust. And they can only do this by being open, transparent and accountable.

Deloitte Research indicates that:

- a well-devised privacy strategy can be a major asset for an organisation;
- firms that act first to tie privacy to consumer trust and loyalty will achieve a competitive advantage;
- a company's approach to privacy can influence its image and brand value;
- firms that do a better job engendering consumer loyalty and trust because of

their approach to privacy will receive more accurate, reliable and complete data from their website users; and

- this in turn will allow these firms to use their reliable data to build stronger customer relationships, increase their revenues and improve their overall brand image.

(see "Creating a privacy value strategy", Deloitte Research, <http://www.deloitte.com/dtt/cda/content/privacy.pdf> )

## Best practices

There are a number of steps that corporations can take to earn the trust and confidence of consumers and some of these measures are:

**Understand consumers' privacy expectations:** The first critical step in protecting consumer privacy is to fully understand consumers' expectations. A growing number of organisations and websites offer surveys, research and other resources that articulate the many concerns and expectations of consumers around the world. The websites of consumer privacy watchdog organisations explain the key issues of these groups.

**Develop a privacy policy statement:** There are a number of organisations and websites that can help you do this. Some organisations, such as the Direct Marketing Association, offer a free online service that helps companies construct privacy statements specific to their products, services, and operations and to the types of information they collect. In crafting the policy statement, make it easy to read and easy to understand. If it is to be posted on a website, make it easy to find by placing a link to the statement on your company's home page as well as on all navigation bars and other principal directional aids on the site.

**Know the rules:** Gain a comprehensive understanding of government regulations related to consumer privacy. In addition, learn about voluntary measures in your industry. You may also want to consult other industries' self-regulation efforts to gain the broadest possible view of private sector approaches to consumer privacy.

**Protect your data:** Utilise appropriate technology and in-house staff, and consult outside experts, to devise systems to monitor and protect data collection, data use, list rental practices and ensure computer security. Actively protect the data your company collects to ensure it is used solely for the purposes for which it was collected and that it cannot be accessed by unauthorised individuals inside or outside your company. Test the systems regularly to ensure they stand up to changing technologies, personnel and business conditions.



## FOMCA

**Provide full disclosure:** It is important that you fully and openly disclose to your customers what information you collect from them and how you ensure the security of that information. Make it known if you combine the information given to you by the consumer with information from other sources. If your company markets to children or teens, urge them to get a parent's permission before collecting any identifiable data. If your market is children aged 12 or younger, obtain a parent's consent before collecting or using data. In all cases, explain to consumers how your company uses the information it collects about them.

**Provide consumers with options:** Explain to consumers the choices they have regarding your collection and use of personal information. For example, allow them a way to remove their names from marketing lists or "opt out" of data collection altogether. In addition, provide contact information, such as an e-mail address or toll-free telephone number, for consumers to contact you with questions, concerns or complaints about privacy-related matters.

**Communicate your commitment:** Actively promote your privacy policy internally and externally. Make sure employees understand consumer concerns about privacy and how your company is responding to those concerns. Incorporate privacy matters into company training programmes to ensure they are fully understood and embraced by all employees. Post policies in personnel manuals and other publications and make sure employees know the importance to the company of vigilantly protecting consumer privacy. Promote your privacy policy to customers and other stakeholders, including investors, policymakers, and the media. Feature the policy prominently on your website, in annual reports, and in other communications materials.

**Consider third party verification:** Several organisations can provide third party verification of your company's privacy policy and practices, giving your company additional credibility. There are three principal avenues to consider: A third party privacy seal programme, a licensing programme or a membership association. Validation by an independent, trusted third party can help boost consumer confidence that your company practices meaningful self-regulation of on-line privacy. Such validation should be easily recognisable by consumers, which often means using a seal or other symbol. Examples of seal providers include TRUSTe and BBBOnline.

**Stay current:** Keep in mind that new developments related to consumer privacy arise on a regular basis and can affect your company's privacy policies and practices. Review and update your policies as needed to stay current with changes in your company, in technology, and in current business practices.

(Source: Business for Social Responsibility - [www.bsr.org](http://www.bsr.org))

## Catalyst for change

Corporate social responsibility has now moved from the fringe to become a mainstream business issue. At the board level in many leading companies, there is now a well-established understanding of the strategic value of a robust CSR programme.

A quick review of company reporting practices provides further evidence that there is real change afoot as the quality and quantity of sustainability and social reporting initiatives continue to grow.

Partnerships and alliances that are firmly rooted in social responsibility ground are flourishing. Among them are a range of collaborations which promote such initiatives as sound ethical business conduct, good employee relations, community empowerment, educational awareness and supply chain/customer engagement.

Let me end with a quote from Abba Eban, in a speech on Dec 15, 1970: *History teaches us that men and nations behave wisely once they have exhausted all other alternatives.*

# Question and Answer Session

**Chairman:** *Dr Stephen Loke*  
**Panel Members:** *Dr Kernaghan Webb*  
*Ong Tiong Hui*  
*Bill Dee*  
*Brian Thomas*  
*Andrew Pirie, and*  
*Damian Yeo*

**LOKE:** This session is basically to conclude our session for the day. You have heard the speakers introducing you to this important concept of corporate social responsibility and I am sure that you have questions for them, that you may want to seek clarifications and that you have comments to make too, perhaps from your own experiences with CSR. May I now invite the first question from the floor?

**KORIS, Vice-President of FOMCA:** In Malaysia, you can easily get the personal particulars of a person by getting their identity card numbers. There often is abuse of this, like people using a person's IC for fraudulent purposes. In this, the Employees Provident Fund is a big culprit - there have been a lot of abuses reported, connected with the EPF, such as withdrawal of a person's funds by unauthorised people.

Telekom Malaysia uses bill collectors to collect money owed to it. Their bill collectors get the information from EPF. Banks also use debt collectors, and many of their debt collectors come from the underworld, and they also get their information from the EPF. In fact, EPF is playing a dangerous role here, in releasing information about its members to other people.

**DAMIAN:** Thank you for the information. This sort of thing is not confined to Malaysia alone. That is why corporate social responsibility is so important. If you are socially responsible, then you would not be behaving in such matter, like divulging confidential information.

**WEBB:** In Canada, we started with a voluntary approach to CSR. After going through the process, understanding what CSR is all about, many corporations and even government agencies reached the conclusion that CSR is the right thing for them; that they should be telling customers exactly what they are doing.

In Malaysia, perhaps there is no public policy or regulation to protect data collected by public sector bodies. Data protection is an important thing, one that is well regulated in many countries of the world.

**SHARIFAH AL-ATTAS, Alam Flora:** What are the criteria for an effective CSR system and how are these adopted?

**WEBB:** When inter-governmental bodies, or international bodies like the International Standards Organisation (ISO) develop rules and criteria for any global policy or standard, these undergo public vetting and periodical revision. Open and standard approaches tend to be the most effective.

**THOMAS:** If you listen to your stakeholders, they will establish the criteria. Continuously improving businesses are those that listen to the stakeholders.

**DEE:** Australia established a set of 20 essential elements for an effective CSR system. What corporations do is to go through the menu and select what is important or relevant to their operations. From there, you can have some benchmarks to implement a suitable system.

**DOREEN LIM, Centre for CSR Singapore:** I would like to touch on the comments made by Mr Andrew Pirie on the Singapore Airlines (SIA) matter. There were some inconsistencies.

**PIRIE:** Actually, it was about the Silk Air crash. What I said was that SIA behaved very differently from Silk Air, which is an SIA subsidiary. When SIA had an unfortunate crash in Taiwan, they were very proactive. It is the way they behaved. It was simply a very fine line between your liability and protecting your reputation.

**LIM:** At that time, Silk Air had not signed the Warsaw Convention.

**PIRIE:** If you are a member of the public, you would not care about what is signed or not. It is the public perception of the responsibility that you show. It hinges on your reputation, your behaviour.

**LOKE:** I can understand Doreen's concern in this matter. I believe she was formerly with the Legal Department of SIA. Anyway, Andrew has pointed out clearly that the reputation of the business is important, whatever the legal standpoint. Damian has also put it clearly in his presentation that the reputation overrides all else.

**JOHN, of Nottingham University:** It is the negative positions that people take of others that I do not understand. For example, NGOs are the biggest critics of everyone

and everything. But the NGOs are not accountable to anybody. NGOs are not elected by anybody. Their boards of management are not accountable to anybody. Why should this be so?

**WEBB:** It is not simply a question of who is elected to do what, but who has the power to act, to do anything. Power sometimes comes through an election. It can also come through wealth. CSR is a manifestation of the fact that power exists outside of elected governments.

Corporations also have the power and influence over lives of individuals and over the environment. Therefore, stakeholder engagement is crucial for corporations that have power. If this power is not used responsibly within the community, NGOs will have the increasing power of pointing out the wrong-doings of others.

Corporations therefore have to practice transparency, to practice accountability. The best practice for the NGOs is to take on the responsibility of being transparent.

**DEE:** What has really changed things for us is the power of mass communications. In this era of information explosion, take for example the role played by the satellite news network, CNN. Anyone steps out of line, whether an individual, a corporation or a government, and it is known everywhere around the world.

**PIRIE:** I have a question for Dr Webb. How far away are we from ISO standards for CSR?

**WEBB:** We are perhaps a year away from there being a recommendation on developing standards for CSR. This is just one step away. But coming up with standards for CSR is perhaps three years away. The ISO standards must be formal, open, transparent processes that involve all relevant agencies and governments of the world - and those processes take time.

**KHAI KIN, of Singapore:** I come from an NGO. And I do admit that NGOs also have their own agenda. How can you counter them? For example, Corporate Watch has a website, in which they discuss "Blue Watch". They criticise institutions, for example the World Business Council for Sustainable Development.

**PIRIE:** I am not familiar with that particular issue. However, NGOs play a role that has accelerated the growth of CSR.

It is an unfortunate fact of human nature that there are organisations at the extreme ends of any factor. They just focus on the extreme, on the vigorous points that they have to make. They also do not use the language that is used when parties are in

dialogue.

For instance, in the area of genetically engineered foods, which is a very complex area, there are many people with very strong views, who will not change their point of view no matter what. These may be religious views, or whatever views. Often, those extreme views are well thought out, so you can't just dismiss them as a bunch of lunatics.

**MATHEW YEAP, founder-president of Singapore National Mentoring Network:** We recruit polytechnic and university graduates and send them to schools to help children who are underprivileged. They act as mentors for the children, help them with their learning process.

I just want to comment on what John from Nottingham University said just now, when he asked what right do NGOs have in impinging into the arena that rightly belongs to the elected government.

There is this whole question of trust. For example, the ratings registered an all-time popularity of Prime Minister Tony Blair during the invasion of Iraq. However, now, with the suicide of Dr Kelly, Blair's popularity is down to 6 per cent.

I started this project eight years ago, when I was with the BP Asia-Pacific headquarters in Singapore. In the beginning it was very difficult. It was very difficult to start it, it was very difficult to justify the business case for the project. It was not seen as an overall contribution of BP to the society.

Now, eight years later, the company believes that this was the right thing to do. Over the eight years, a sum of S\$500,000 has been spent, and now we have 15,000 volunteers with the Mentoring Network, who work with some 100,000 students in 30 schools.

We have three billion people in the world who live on just US\$1 a day. It is a very tough life. Can big business continue to live with such abject human misery in their midst? I believe that every problem can be localised. It is up to us to create a project that has a meaningful contribution to society.

**LOKE:** Thank you. As there appear to be no further questions or comments from the panel members, I will close this session now. We have another full day tomorrow and I look forward to your continued vigorous participation. Until then, have a pleasant evening. Thank you.

# Corporate Social Responsibility: The Malaysian Perspective

By *Ir Hussein Rahmat*

## Malaysia in the economy of the world

We are always somewhere in the middle. According to the World Bank's Country Data and Statistics 2002, by income Malaysia is put among 34 countries as an "upper middle-income economy". The other groups are low-income economies (64 countries); lower middle-income economies (54) and high-income economies (56).

By indebtedness, we are listed as moderately indebted, with 38 other countries in the group. The other groups are severely indebted (50 countries), less indebted (55), and not classified by indebtedness (64).



## Malaysia's Trade Performance Index: *Position in 1999*

	Ranking out of all exporting countries (Number)
Value of net exports (\$ '000)	29
Per capita exports (\$/inhabitant)	37
Export share in world market	34
Product diversification (No. of equivalent products)	20
Product spread (concentration)	69
Market diversification (No. of equivalent markets)	26
Market spread (concentration)	29

Source: (ITC calculations based on COMTRADE of UNSD, covering the 191 member states of the United Nations)

*Hussein Rahmat is an engineer by training. He has had 19 years of experience in the petroleum industry, 10 years in the mining industry and five years with the government as a civil servant. He started his career with the Petroleum Unit of the Prime Minister's Department, then joined the private sector as an inspector of mines and finally, joined the national petroleum corporation Petronas, where he served in various senior capacities until he retired in 1998. He now serves as a consultant with various organisations.*

Malaysia's productivity growth of 6.1 per cent in 2000 surpassed that of major OECD countries such as the United States (3.9 per cent), Japan (2.3 per cent), Canada (2.1 per cent), United Kingdom (1.8 per cent), Italy (1.5 per cent), Germany (1.4 per cent) and France (1.2 per cent).

In 1999, as we were still in the throes of the Asian financial crisis, Malaysia's growth rate was 3.9 per cent, while that of countries in the region were Indonesia at 0.11 per cent, Philippines (0.7 per cent) and Hong Kong (1.1 per cent).

So, we can say that in the context of the world economy, Malaysia is doing quite all right. We are an upper middle income and a top trading country, blessed with high productivity and moderate indebtedness.

We are well positioned to be an industrialised nation and therefore, we now have to adopt values that will commensurate with this position.

## **What is CSR?**

Again, as emphasised by the earlier speakers, there is no agreement on a definite interpretation of Corporate Social Responsibility. There are various descriptions and you have been given quite a few. Listen to that of the Six Blind Men of Indostan, trying to describe an elephant:

- It is pointed, said the one who felt the tusk: Sharp and dangerous.
- It is massive, said the one who felt the body: It can mean barriers and trouble with trade.
- It is snaky, said the one who felt the tail: So, don't touch it.
- It is like a pillar, said the one who felt the legs. There are four, so you can build on it.
- It is a flexible thing, said the one who felt the trunk: It is a useful tool, and so can be put to work.
- It is a big, flat thing, like a cloth, said the last who felt the ears: You can cut your suit accordingly.

So, CSR is like a religion. Each has his own view of it: CSR can mean many things to many people.



## The Triple Bottom Line

However, the basic principle underlining CSR is the Triple Bottom Line or the 3Ps: Profit, People and Planet. Whatever your interpretation of CSR, it must encompass the 3Ps.

### Why CSR Now: Are we afraid of the dark?

No, we're not afraid of the dark here in Malaysia. But there are many sources of concern, especially with things new; things that come from the developed West. Among them: Foreign invasion; imposition of alien customs and practices; suspicious goals and intentions of foreigners; belief that these may serve as technical barriers to the growth of our trade; worries about costs involved and general confusion about all these things.

This then begs the question: Are we afraid of things Western? No. That's not true because we in Malaysia have adopted many things Western, from the way we conduct the affairs of the State, technology and our way of living. Just take a walk around the city, and you'll see that Western civilisation is very much alive here.

Our country is a constitutional monarchy – a very much Western concept. We practise parliamentary democracy, which we inherited from our colonial rulers, the British, and we have embraced technology in a grand scale – just look at the Multimedia Super Corridor or MSC and the “intelligent” cities of Putrajaya and Cyberjaya. Western culture is very much alive here – Levi's Jeans, McDonald's, Starbucks Coffee, Mercedes Benzes or Ford cars.

But we are suspicious. We are suspicious of the “hidden agendas” of the developed countries in wanting to impose things on us, and in wanting us to adopt some of their practices.

The developed countries are wealthy and have thriving economies. They do have some problems – such as unemployment in the many countries of Europe, the need for markets to expand for the producers in the United States, and Japan's own tricky problems, which include its concerns with consumer protection.

Many of the developing countries are steeped in poverty, and they all look for economic growth as a way out of poverty. So when they are told that they must have national standards for this and that, especially under the WTO regime, and that these must comply with international standards – what would their reaction be? Paranoia? Would they be throwing tantrums?

Can CSR be considered to be a barrier to trade? We do not have to go far to find rulings that constitute barriers to trade. Such barriers can always be negotiated.

One thing is for sure: Developing nations will have to find ways to adapt to new technologies, and new ways of doing things that have been successful with the developed countries. They just have to be alert and aware, that they are not taken for a ride in the process – as can often happen under WTO regimes.

Developing countries have learnt that they must get involved in international processes; that they must negotiate for terms that are conducive to them, and that there are certain international norms that they must comply with.

As has been said, CSR is a relatively new thing. For a developing country like Malaysia, we should not be overly concerned about the cost considerations in complying with CSR. Instead, we should be looking at it for the long term.

In the global situation, a corporation that does not have a CSR policy will learn fast from the opportunities lost: It may not be allowed to bid for projects and services that it can well deliver, and at a more competitive cost.

There will be other problems too. It will suffer a lower reputation in comparison with companies that practise CSR; it will have no opportunity to review business processes for improvements; it will not be able to grow due to barriers against it for poor corporate governance; and there may be penalties for not being a good corporate citizen.

## **Benefits from better corporate governance**

According to a report in the McKinsey Quarterly (No 3 of 2002), research on 188 companies from India, Korea, Malaysia, Mexico, Taiwan and Turkey showed that companies that had some sort of CSR policy enjoyed higher price-to-book ratios.

Investors rewarded good governance of corporations with large premiums, of up to 10 to 12 per cent, to boost to their market valuation. These companies could move from worst to best, even on a single element of good corporate governance.

Better environmental management, another important aspect of CSR, means the company will profit from reduction of wastes, achieve greater efficiency through better processes, and gain better market penetration as a result of its enhanced reputation and lower liabilities in the long term.

Managers will perhaps see benefits from better human resources management much

clearer. There'll be greater productivity, improved morale among workers and fewer disruptions to workflow in the form of absenteeism and malingering.

Better health and safety management means less work stoppage. There will be the resultant reduction in wastage of raw materials and less damage to equipment; less divergence of resources to handle accidents – for if the accident is really big, the business survival of the company will be at stake.

There may be confusion over CSR because of the many international CSR initiatives. Many countries have their own national standards or guidelines on CSR and these standards may not integrate well with management system standards established by organisations such as the ISO 9000 and the ISO 14000.

The welcome development now is that the International Standards Organisation is attempting to define and set standards for CSR – which may bring about a uniform CSR standard for the whole world. Here is a chance for developing countries to contribute to this by adding their two cents' worth.

## **Malaysia is not a cultural desert**

CSR is not something new or strange to Malaysia. We have institutionalised elements of CSR in some of our laws. You will see them, in "patches", in this law or that. Some of these are:

Finance Committee on Corporate Governance: In March 2000, this panel under the Ministry of Finance, in which the Central Reserve Bank or Bank Negara plays a key role, issued the Malaysian Code on Corporate Governance.

Under this code, directors or members of the boards of all listed companies will have to attend a two-day course which aims to build and increase the attributes of directors required for corporations operating in a highly competitive economic environment, especially with the impact of the ASEAN Free Trade Agreement (AFTA) and the World Trade Organisation (WTO) on Malaysia.

Worker safety and welfare: Malaysia sees the need for tighter implementation of occupational safety and health management in organisations because of its concentration on industrialisation. We aim to be a fully industrialised country by 2020, and towards this we have the Occupational Health and Safety Act.

The government is now in the process of adopting the International Labour Organisation (ILO) Occupational Safety and Health Management System Guidelines and will soon

come out with the corresponding Malaysian standard. Following this, local occupational health and safety organisations will be certified according to these guidelines.

**Human Rights Commission of Malaysia:** The commission, or Suhakam as it is called locally, was established by an Act of Parliament, the Human Rights Commission of Malaysia Act 1999. Its main functions are:

- To promote awareness of and provide education in relation to human rights.
- To advise and assist the Government in formulating legislation and administrative directives and procedures and recommend the necessary measures to be taken to protect human rights.
- To recommend to the Government the subscription or accession of treaties and other international instruments in the field of human rights.
- To inquire into complaints on the infringement of human rights.

**Anti-Corruption Act:** This law was enacted in 1977, establishing the Anti-Corruption Agency (ACA). This agency combats corruption in the public and private sectors, works to tighten loopholes in government procedures that can lead to corrupt practices and generally, acts to prevent and eradicate all forms of corruption and abuse of power prohibited by Government regulations and the laws of the country.

**Environmental Quality Act 1974:** This law promotes environmental reporting and for development projects that make an impact on the geographical landscape, such as the cutting of hills or affecting rivers, an environmental impact assessment study is required before project approval. The standards are initiated and enforced by the government.

**Sustainable Development:** The Department of Environment has been entrusted with this task in the environmental arena, while for the social area, the Social Impact Assessment Guidelines, which are overseen by the Ministry of National Unity and Social Development, must be adhered to.

**Agriculture:** Several steps have been taken, such as the establishment of the Malaysian Timber Certification Council (MTCC) in 1999 to conserve tropical hardwood and the formulation of the National Forest Management Certification Standard for sustainable management of forests.

The government set aside a budget of US\$1.2 billion (RM4.56 billion) in 1996 to cover the cost of implementing Sustainable Forest Management over a period of three years into the year 2000. The government also takes an active part in international

forums such as the International Tropical Timber Organisation and the ISO Climate Change Working Group.

Labour standards: After fighting off labour standards in 1996 and again in 1999 by rejecting the ISO Safety and Health Standard, the ISO 80001, the government this year said Malaysia needs to ensure the welfare of its large workforce and that an Occupational Safety and Health Management standard for workers is required.

## Changed paradigm in business

Everything changes with time. The key principles on which a successful business is built have also changed:

<u>Yesterday</u>	<u>Today</u>
resource control is power	knowledge is power
hierarchy	mandate
shareholders	customers
supervisors flourish	supervisors vanish
employees took orders	teamwork
production determined availability	quality determines demand
value was extra	value is everything

- Denis Waitley, *Empires of the Mind*

## In conclusion

Malaysia is a world player. We already have elements of CSR in Vision 2020, the outline national plan that aims to make Malaysia a fully developed country by the year 2020. Recognised in Vision 2020 are:

- The benefits for the country from investor and customer confidence
- The benefits for exporters with product acceptability and less boycotts
- The benefits for local industry with ability to raise funds

Our war cry is “Malaysia Boleh” or Malaysia Can. We can achieve whatever we set ourselves to do. As I said earlier, a number of the elements of CSR have already been institutionalised in Malaysian laws, even if in patches here and there.

The need for CSR is already seen in the recognition of the importance of corporate governance and concern for the environment, social development and safety and

health of the workforce. What is required is the strategy to bring about CSR as part of our culture.

## **The way forward**

What is the way forward for Malaysia? CSR has to be home-grown, so that at least there is acceptance. We must start with embracing change and accepting corporate responsibility. To move CSR into everyday practice, we need an implementation vehicle.

We can beg, borrow or steal a guideline or management system that could be integrated with current systems and made scaleable to accommodate the small and medium industries or SMLs.

Then, we need an organisation for the Malaysian CSR, a body that can formulate the concept, disseminate the ideas, train the implementors and perhaps set up a specialised body to verify, certify and endorse CSR performance.

Who should take on this responsibility? It could be any one of the established government agencies, such as the Department of Occupational Safety and Health, the Ministry of Domestic Trade and Consumer Affairs, Department of Standards Malaysia or the standards and industrial research institute Sirim Bhd. Or, it could even be a consumer body like the Federation of Malaysian Consumers Associations or some faceless organisation yet to be identified.

*Those who cannot remember the past are condemned to repeat it.  
– George Santayana (1863-1952)*

# CSR in the Perspective of Alam Flora

*By Mr Mohamed Siraj Abdul Razack*

Malaysians produce approximately 15,000 tonnes of waste per day. Of that amount, Alam Flora handles more than 5,200 tonnes of waste per day in our concession areas. The management of solid waste is a task that carries with it various environmental impacts, either directly or indirectly.



As a responsible company that realises the impacts that our operations have on our surroundings, land, air, water as well as the people, Alam Flora has implemented a variety of programmes and activities to educate and inform our stakeholders on our efforts to minimise the impacts.

Alam Flora aims to perform its duties not solely as a business looking for profit, but as a contributing member of society working towards creating sustainable development in everything that we do.

It is our vision to be a leading environmental management company committed to improving the quality of life. As such, in all our activities we strive to ensure minimal impact on our environment as well as to promote the minimisation of waste generation through various programmes and activities.

Our Environmental Policy states clearly our commitment to minimising any adverse impact on the environment through our services and operations. We are looking at the “cradle to grave” aspect of waste management, to ensure waste is handled, transported, stored, treated and disposed of in a proper way to be environment and people friendly.

So, what we have been doing all along has been practising Corporate Social Responsibility, without calling it as such. This conference is an eye-opener to us, and we will, when we are fully privatised, take on a more coordinated approach to implement CSR in all aspects of our work.

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*Mohamed Siraj Abdul Razack is the Chief Executive Officer of Alam Flora Sdn Bhd, which is undertaking the privatisation of the solid waste management for the Central and Eastern regions of Peninsular Malaysia, covering Kuala Lumpur, Selangor, Pahang, Terengganu and Kelantan. He is concurrently General Manager (Operations) with Hicom Holdings Bhd, the parent company of Alam Flora. He graduated in 1980 with a Combined Honours Degree in Chemical Processing and Industrial Management from Liverpool University, UK, and has extensive experience in the oil and gas industry, working for Petronas, Esso and Shell before joining Hicom Holdings in 1996.*

## Background and the Formation of Alam Flora

In the Government's Privatisation Master Plan, solid waste management was earmarked as one of the areas for privatisation. Suitably qualified companies, both local and foreign, were invited to participate in the privatisation of this project in 1994. More than 60 companies participated in the bidding exercise and four consortia were selected as the successful bidders and were awarded the four regions of Peninsular Malaysia and Sabah, Sarawak and Federal Territory of Labuan to handle solid waste management.

The Hicom-led consortium consists of four companies, which won the contract for the central and eastern regions of the peninsula, decided to incorporate a single purpose company to undertake this project in order to execute it smoothly. A shelf company was purchased and re-capitalised with an initial paid-up capital of RM30 million and the company was named Alam Flora Sdn Bhd in 1996. With further equity injection, the company is currently capitalised at RM38 million. The authorised capital is RM500 million.

Prior to the full privatisation and the signing of the concession agreement, the following activities were done in line with guidelines given by the Economic Planning Unit of the Prime Minister's Department:

- Input to the Solid Waste Management Bill
- Preparation of draft concession agreement
- Carrying out public relations and education programme
- Development of the tariff structure

These four activities involved extensive studies by experts and consultants together with Alam Flora's in-house staff and experts and were carried out for a duration of two years starting from early 1996.

Most of these deliverables have been completed and currently Alam Flora is in the final stages of negotiation with the Government on full privatisation.

Pending now are amendments to the Local Government Act which will transfer the rights of solid waste management from the local authorities (LA) to the Federal Government, and in turn empower the Government to enter into agreements with the privatised companies such as Alam Flora. The amendments are expected to be passed by Parliament soon, with full privatisation expected immediately after the enactment.



The privatisation step includes takeover of all staff, vehicles, facilities and contractors involved in the solid waste management activities from the local authorities. If the local authority employees do not wish to join the privatised companies, they can opt for early retirement from Government.

Those who join the privatised companies will get a mandatory 17.5% increase in their salaries as compared to their Government salaries. They will also continue to enjoy the subsidised housing loans provided by the Government: The privatised companies will cover the interest difference of five per cent between the Government rate of four per cent and the market rate.

All the above benefits and salary increase are an important pull-factor for the staff to join a privatised company after having enjoyed the comfort and security of Government employment.

In the case of Alam Flora, more than 85 per cent of the staff chose to join, with the remaining 15% opting for early retirement.

Even though full privatisation is round the corner, the Government instructed the consortium companies, including Alam Flora, to take over the solid waste management and cleansing services from the local authorities as an interim step to enable smooth privatisation.

The payment to Alam Flora is based on the actual operating costs incurred by the respective local authorities. All the solid waste management (SWM) contractors covering collection, cleansing and other miscellaneous contracts were absorbed by Alam Flora through contracts signed between the local authorities, the contractors and Alam Flora.

To-date, Alam Flora has taken over the operations of SWM and cleansing services activities from 23 local authorities, including KL, and we will be taking over this task from the local authorities in Terengganu and Kelantan sometime in the future.

### **3. CSR Initiatives**

As no man is an island, no company exists and operates exclusively in its own environment. Alam Flora recognises different groups of stakeholders who have an interest in and are affected by Alam Flora's operations as follows:

- Owners – the members of the Board of Directors
- Employees - direct and indirect employees
- Contractors

- Vendors/Suppliers
- Customers - domestic and industrial
- Communities – residents’ associations, schools, opinion leaders, etc.
- Pressure groups - e.g. FOMCA and other NGOs
- Media – print, radio, television, online sites
- Strategic partners – local authorities, universities, etc.

Specific programmes have been designed to address the needs of each of the specific stakeholders, keep them informed of our activities and to provide a channel for feedback on our services. We have planned a comprehensive public relations and education programme (PREP) to be carried out through the next 20 years.

It has been proven through experiences in other countries, such as Japan and those in Europe, that the effects of PREP will take a long time to be felt as they deal with habits and attitudes, which need to be moulded at a young age. It will take up to 20 years for PREP to actually bear fruit in Malaysia.

Alam Flora’s PREP strategies are to:

- Make the public aware and understand waste problems and how they affect the environment;
- Make the public understand Alam Flora’s role in solving the issues;
- Get support in reporting illegal dumpers;
- Get members of the public to understand their role in protecting the environment;
- Get public involvement in 3R (reduce, reuse and recycle) activities; and
- Instill in the public the dos and don’ts of waste handling and its effects.

We believe that Awareness + Understanding = Support. Within the comprehensive PREP plan are various programmes for each group of stakeholders:

## **Media programmes**

Alam Flora has regular columns and programmes with various newspapers where we produce articles to educate the general public on how to properly manage their solid waste. These articles range from information on waste management and recycling tips to educational activities for students on various related topics. Apart from the newspapers, Alam Flora also has regular slots on a radio station (Radio 4) to talk on various related topics.

### 3R Programmes

Reduce, Reuse and Recycle: Alam Flora actively reaches out to the public on the 3Rs through specific action plans. The salient points of our approach are to:

- Develop a comprehensive master plan to address all aspects of 3R in the concession area;
- Work closely with the Recycling Secretariat set up by the Ministry of Housing and Local Government;
- Form “recyclers’ networks” to coordinate and enhance the recycling activities for the betterment of the whole industry. The recyclers’ committee consists of all organisations, companies and NGOs involved in the recycling activities and is headed by Alam Flora;
- To meet the Government’s target of raising the diversion rate of recyclables from three per cent to 22 per cent of total waste collected, by an increment of one per cent a year for the next 20 years; and
- Initiate the PREP and recycling programmes at as many schools as possible so that they can be self-sustaining without Alam Flora directly involved, other than in the collection of recyclables from the schools.

Currently, Alam Flora carries out the following 3R programmes with schools, communities and offices and industries:

- For schools, both primary and secondary, we have the KitS programme where we educate the students on what recycling is; why they should recycle; the items that can be recycled; how the students can recycle at school and at home; and how the schools can get assistance and guidance from Alam Flora on setting up a recycling programme. Some of these schools also hold successful annual recycling programmes and Alam Flora assists in the collection of the recyclables and holds competitions to further encourage the students to make recycling a habit.
- For offices and industries, Alam Flora has a “Waste Wise” programme that is designed to encourage recycling in an office/industrial environment. Participants include any industrial, commercial and institutional bodies that intend to start integrated solid waste management and minimisation programmes.
- For the community, we assist residents’ associations to set up recycling centres in their communities and provide informational talks on recycling. There are several residents’ associations that are very successful in conducting their

recycling centres, such as Damansara Jaya.

- We also have Buy Back Centres situated in strategic locations around the Klang Valley for the members of the public to bring their recyclables to and obtain an incentive for these items.

## **Dialogues and meetings**

Alam Flora regularly conducts dialogues and meetings with our stakeholders to obtain feedback on our services as well as ensure a smoother channel of communications.

We have held sessions with:

- Ministers and ministries – e.g. Dato' Seri Law Hieng Ding of the Ministry of Science, Technology and the Environment; and the Ministry of International Trade and Industry;
- Local authorities;
- Residents' associations – e.g. Bukit Damansara, Bandar Sunway;
- NGOs – e.g. FOMCA;
- Contractors; and the
- Media.

## **Community efforts**

Local Agenda 21: Through the Local Agenda 21 and eco-partnership programmes promoted by the United Nations, Alam Flora is actively involved in reaching out to the public on the 3R strategies and efforts through specific action plans.

Exhibitions: Alam Flora participates in various exhibitions to promote awareness on proper solid waste management as well as recycling methods like composting, including those targeted at schoolchildren and those organised by local authorities. These programmes also enable us to get feedback from our customers.

## **Challenges**

These are the challenges that Alam Flora faces in its work. They are systematically addressed, after proper identification and documentation of the problems and issues, through a task force approach.

- Entry level to provide certain aspects of solid waste management is too low. Hence, too many players are chasing too few jobs. For collection services it is quite okay as one needs certain equipment, e.g. compactor vehicle, before

they can provide services.

- Identification and locations of suitable land sites for the various facilities planned to be constructed. The 'Nimby' (Not in my backyard!) syndrome is immediately triggered.
- Coordination and management of more than 650 contractors inherited from the various local authorities.
- Public's expectation of higher service even though it is only an interim arrangement whereby Alam Flora operates on "as is" condition. The full capital works programme has not been undertaken yet, hence the public will not be able to see the difference. As a privatised entity, the pressure is high and the company is working with "a gun to its head". Everyone is watching your steps with a microscope, including NGOs, media and local politicians. Even a single failure is extensively highlighted. For us, "good news is no news".
- Mind set change of employees from Government environment to private sector environment with regards the takeover staff from the local authorities.
- Murphy's Law comes into play as everyone claims to be an expert and is promoting too many unproven and untested technologies. The "real" experts like Alam Flora have to really validate such technologies to ensure cost-effectiveness and efficiency, using the Life-cycle Cost Analysis method.
- Gathering of data and statistics of waste generated, collected and disposed of as most landfills have no weighbridges and there is rampant illegal dumping.
- Educating the public, which involves attitude and habit changes on the right way of disposing of waste and creating greater awareness on the long-term dangers of using poor disposal methods to society.
- Creating a "recycle" culture among the public rather than a "throw-away" culture currently practised.

On the land issues, it has been highlighted to the Federal Government, which is now actively assisting Alam Flora to address them. The Government is fully aware of the criticality of the matter as without proper landfill sites; the country could face a garbage crisis in the future, especially in the highly urbanised areas.

The contractors' issue is being addressed through a total re-engineering process. They are requested to merge into bigger groupings and with re-zoning of their operating areas, they can achieve better operating efficiency, better quality and more focused operation. We expect to implement our "franchising system" within two years of operation, where the contractors would fully use our standard operating procedures and fully comply to our specifications. Again this re-engineering is being carried out using a task force approach, with weekly reporting on the progress to management.

Public expectations are being addressed through better customer service. Alam Flora is projecting itself as a “solutions provider”, rather than rejecting customer complaints that do not fall into its scope. Previously, Alam Flora only entertained its own complaints and referred other complaints to the relevant authorities. We found out that this approach was not working; the people would get upset, saying that they are being passed around. Local authorities were upset that we are “pointing fingers” at them, and so on.

So, we changed our concept of customer service and accept all complaints on environment and then take these complaints to the relevant authorities for action and follow through the complaints until they are resolved. This approach, which has been practised over the last one year, seems to be working well.

But this approach requires a lot of training and mind-set change within the staff of Alam Flora. Rigorous training of staff on customer service is being undertaken for all staff of Alam Flora. These training programmes also address the change of the employees from Government to private sector and their relationship with their former colleagues in the local authorities.

Alam Flora has embarked on R&D initiatives to re-validate all the existing data and statistics. Some startling discoveries were found, and are being addressed.

Educating the public is addressed through our PREP or public relations and education programme and the 3R programmes.

Project management is done using oil and gas type standards. All the necessary project management documents have been developed for use in implementing these projects. Quality assurance procedures are also in place to ensure quality in the engineering, procurement and construction activities.

## **Conclusion**

Alam Flora is a single purpose company – a solid waste management company. Doing what we do, we undoubtedly affect our surroundings – the air, land, water and people. Therefore, in our vision, we aim to be the leading environmental management company committed to improving the quality of life. Thus, we devised a comprehensive PREP – in fact, our own brand of CSR – to achieve our vision and to address the challenges that we would face.

Despite the low awareness of the public on the benefits of a proper solid waste management system, (the current rate of recycling in Malaysia is only five per cent,

whereas in industrialised nations like Switzerland and Germany, the recycling rates are 22 per cent and 16 per cent respectively), Alam Flora will continue to work towards our goals until we reach the level of developed nations, where conscious effort is made by many, rather than by only a few, to care for the environment we live in through waste minimisation and recycling efforts.

So, you can see, we have been practising CSR all along, but not calling it as CSR. This conference has been a great eye-opener for us from Alam Flora, and we will make greater efforts to incorporate more of the aspects of CSR in all our functions.

However, this journey cannot be done completely by Alam Flora alone. We need the understanding and support of all our stakeholders to make this aim a reality. Alam Flora is ready to be a part of the community in which it operates and we have been walking our talk through our current efforts to fulfill our responsibility to the society. And we will continue to do so in the future.

# CSR in the Perspective of Tenaga Nasional Bhd

*By Mr Roslan Abd Rahman*

TNB was the National Electricity Board before privatisation. It provides you with all the electricity that you need, 24 hours a day. But no one thinks about TNB until there is a power breakdown. So our job is to make sure that you do not think of TNB at all – and that means, no blackouts.

We are an integrated company, handling generation as well as distribution, and there are also units that handle other activities as well. Although we are a national body, we supply electricity only to Peninsular Malaysia and Sabah. Sarawak is not covered.

We have about 5.5 million customers, to whom we supply 14,000 Megawatts of electricity, of which 8,000 plus MW is generated by us and the rest by independent power producers or IPPs.

Even before this term Corporate Social Responsibility came into common use, we have been practising it somewhat in our company for many, many years. We term it Business Social Responsibility (BSR). In all we do, matters that we make decisions on, must be linked to ethical values, compliance with legal requirements, respect for people and communities and the environment.

Whatever we do in terms of planning for the system, thinking of expanding, in bringing supply right up to customer contact, we must consider our BSR. CSR is already embedded in the TNB Shared Values. Our Shared Values are Customer First, Integrity and Guarantee.

Of course, when we were privatised, everybody thought that we are after profit, for the good of the shareholders and all that. But we have many major roles, one of which is to maintain a certain level of reserve margin.

You will remember the last blackout some years ago, in which the whole country was plunged in darkness. What came out of this was the creation of the so-called independent power producers or IPPs. As a result of that blackout, we are now required to maintain a certain level of reserve margin at all times. This means that

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power is generated, but there are no takers for the electricity. So, we maintain about 35 to 40 per cent as reserve and this is for any unforeseen incident, that is, any catastrophe that happens to cause a blackout.

Even though the cost of fuel, such as oil and gas, has gone up tremendously, we have always maintained the tariff. Since 1997, there has been no increase in electricity tariff rates for all our customers. During that period, we also acquired the Sabah Electricity Board, which was a loss-making entity. We have to be responsible, to discharge the responsibility thrust upon us by the Government. So, in terms of what we give to our customers in the peninsula, the people in Sabah must also get, and at the same price.

We also support the national economy, by helping to maintain the competitiveness of our industrial and service sectors. Over 60 per cent of our sales are to industrial customers. We can't increase tariffs easily – it's regulated. We introduce a lot of incentives to ensure that our industries can compete with others elsewhere around the world.

We support the use of renewable energy, such as solar energy for lighting, and we are also into education, in that we operate a university, the Universiti Tenaga Nasional or UNITEN. Our very good incentives to the steel industries make them competitive. We have a special discount on industrial tariff for major industrial users. This is to make sure that the products they make are competitively priced. We spend RM250 million a year on this.

All welfare homes, educational institutions, all houses of worships are also given a 10 per cent discount on their bills. From time to time, we also give other discounts, like during the recent SARS breakout, when we had to give a five per cent discount to the hotel industry for six months.

Our tariffs, if compared with the tariffs in the ASEAN region, are the lowest. When we were privatised, there was this clause allowing us to pass on to the customers any increases in the price of fuels used to generate electricity. However, we have not done this.

Our stakeholders are the Government, the shareholders, the customers and our employees. With improved security of supply, the government is able to encourage investors to come to the country. And, of course, our tariffs are low.

We spent RM1 billion to set up UNITEN, and spend RM80 to RM90 million a year to run it. Initially, it was to train all the staff we need, but then it expanded and expanded, and now we are a full fledged university, training manpower for the nation as well.

The Government's policy is that every house should have electricity. That is our task, and today, you will hardly find a house in the peninsula which does not have electricity. It does cost us a lot of money, just laying cables into the remote areas where there may be just a handful of houses.

As part of our corporate responsibilities, we have also embarked on a Vendor Development Programme for the supply of materials that we use in high quantities. We have embarked on the programme for some years and are proud to report that today, all the cables we use are locally manufactured. We would like to achieve a situation that everything that we use is locally made, or locally assembled.

Our wider commitment can be seen in the way we react to environmental and ecological issues. Consider for example our power stations in Pergau and Kenyir. Our concern is that in whatever we do, we do not disturb the environment. We have established an Environmental Management System, which we implement very diligently, and ensure that whatever plant we set up also complies with international standards. Besides generating electricity, the Kenyir plant in Terengganu also helps the state government earn money from tourism.

We also support the use of renewable energy. The government's mixed fuel policy for power generation calls for a certain percentage of power generation by solar energy and the use of landfill gas. One of our major contributions is the cable car to Gunung Mat Cincang in Langkawi, which is powered by solar energy. We are serious about the use of renewable energy and we now have a few projects going on in the use of agricultural wastes, municipal wastes, oil palm wastes ... we want to make sure that no wastes go to waste. A lot of these projects are small, up to 10MW of generation, and a few mini-hydro projects.

As for safety, you can rest assured that as a generator of electricity, safety is at the topmost of our minds, for our staff and more so, for our customers.

The government decided recently that all electric power producers in the country should contribute a certain portion of their revenue to a fund called the Malaysia Electricity Supply Industry Trust Fund. The funds are for the rural electrification programme, for research and development, energy efficiency programmes and those activities that go back to the industry for developmental purposes. TNB being the major generator of power contributes RM40 million a year to this fund.

We also do our fair share in supporting local sports, by being sponsors for various sporting activities. We were a major contributor to the Commonwealth Games held in Malaysia in 1998.

We also have many services which I will not bother you about. You can pay all your other bills at the Kedai Tenaga, or if you don't have the time, you can post your cheque, pay at the bank and even pay on-line through your bank. Another important service is our Call Management Centre, established to ensure that any consumer with a problem over electricity supply can get on the phone and speak to someone from TNB at the other end.

Sometimes, a consumer may not get through. This happens when there is a major breakdown, and a lot of people are calling up, to scold us, mostly. So with so many calls coming in, the lines tend to get jammed. We train our people well, to be patient and polite at all times. We used to have 640 power interruptions a year before, now it is just 100. We were voted the most caring employer in Malaysia some time ago, and we ranked 11<sup>th</sup> in Asia. We look after our employees' needs, all 25,000 of them.

Complaints are part and parcel of any service industry. We are committed to continuously improving the services for our customers.

# CSR in the Perspective of ExxonMobil

By Mr Rob Fisher

What is termed Corporate Social Responsibility is what we at ExxonMobil term Corporate Citizenship. This is exactly what I think this conference is about, so I shall be using the term corporate citizenship throughout my talk, for it refers to our obligations to the society. This is what ExxonMobil has been practising for many, many years.



We operate in a changing world and that's no surprise to all of you here. Public expectations are rising. There's increasing scrutiny of what the corporate sector is doing, not just in terms of the results it is achieving but also in terms of how these results are achieved. And there is increasing demand for transparency and more communication.

There is also increasing pressure on governments to impose terms when corporate governance is not what it should be. This is the result of some very bad activism that we have been seeing, predominantly in the US but not restricted to the US.

The ExxonMobil situation is that there is no centralisation of power in the hands of a very few people, nor is there an absence of appropriate corporate business controls. The critics of business are vocal, influential and try to dominate the debate and because they've got outrageous things to say, they get good media. They get a very easy forum, and ready access to that forum. We try to operate in that situation, even if we don't very often get to have our views presented.

So corporate citizenship, or to use the conference term, CSR, means that we've also got to tell what we are doing, not just do it. Adopting a reactive stand to what is against us is likely to put us in the wrong place. Corporate citizenship is not just a public relations exercise, although the aspect of communications is deployed. It is not restricted to charity or community work, although they do play a part in the

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*Rob Fisher was appointed Chairman of ExxonMobil Subsidiaries in Malaysia on Jan 1, 2003. He started his career at the Esso Refinery in Fawley, United Kingdom in 1976 and held various technical and operational positions there until 1982, when he was assigned to the Supply business in the UK, and later, in Europe. In 1989, he was assigned to Exxon Company, USA, in the Offshore Division of the Production Department in New Orleans. Prior to coming to Malaysia, he was Executive Vice-President, Upstream, ExxonMobil Saudi Arabia (Southern Ghawar) Ltd.*

overall programme. It is absolutely not separated from business priorities. In fact, I would argue that most corporate citizenship programmes should be driven by business priorities. They should be consistent with them, and the leverage that business could get from the corporate citizenship programme is important.

It is impossible for companies today to fail to play an active, efficient role in society. If we as companies deliberately set up programmes with the community to achieve our business objectives, we either are not going to deliver properly, or we are going to compromise our business objectives and not be successful with all those plans either.

We have programmes which we translate into business strategies. Our philosophy can easily go by the principle that action speaks louder than words.

We are by far the world's largest private energy company. We operate in more than 200 countries and we have more than 100 Malaysians in senior positions in ExxonMobil all over the world.

We have respect for local people and cultures and customs, we honour the traditions in each of the countries in which we have operations. We have grown with the countries, we have seen changes, and for example, how much has Malaysia changed since we have been here.

We provide the energy that the world needs to grow, prosper and improve the quality of life. We provide cheap energy, reliable energy in an environmentally responsible way. I know there are critics who would say that we are exploiting a non-renewable resource and all that, and we understand the conflict between sustainability and development.

What has been ingrained in our work culture all over the world all these years is our commitment to the environment, our commitment to our customers, to our shareholders, to governments, communities and societies that we interact with, and ultimately, our employees.

In a multinational corporation, the commitment and policies that we are talking about today are not specifically tailored for any country. They are not specifically tailored for the United States, or specifically for Malaysia, or for any of the 200 countries in which we operate. They are a world-wide standard and obligation for all countries, and for all employees to be responsible for.

Consistent worldwide delivery requires that those commitments be built into the fabric of our business, to establish policies and procedures. Talking about it won't do. We need to set performance expectations, often done by reinforcement and continuous

stewardship of results. If you don't set targets for yourself, then you will not reach what you're reaching for.

As I've said earlier, it is very important to hold line management to account, in this aspect of business results, if you want to make progress. There are six principles that we must observe to achieve business excellence and corporate citizenship.

The first one is that the way we conduct our business is as important as the results reached. Here, integrity is the most important aspect. The reputation of our company is a prized asset, one that is a lot more difficult to acquire than to lose. The actions of just one individual or a small a group of individuals can destroy the reputation of a company that has taken many years to build.

We expect everyone to observe a high standard of ethics and I must stress here that it applies not just to the employees but also those with whom we deal. Our expectations of our contractors, for example, are every bit as high as that for our employees. All our vendors are expected to meet our standards of business conduct.

We have to be systematic and disciplined in our approach. We have a network of specialists who are embedded in the operating and service units, who meet quarterly and share experiences and pool their resources on how business controls are instituted in each individual operation of the entire company here in Malaysia.

Another way of saying it is that when you start a business, you cannot control every aspect of that business. A better way of doing it would be to have effective business controls embedded into the organisation, where you move to control by preventative controls. And that's what this network in our organisation is responsible to do.

As you get better at it, you find that this network is not getting more controls into place but really putting in smarter, cheaper, and more effective controls that take less time to administer.

Corporate governance is vital to our organisation. In Peninsular Malaysia, we run three different subsidiary companies, each with different responsibilities, and one of them with minority shareholders but each of them trade, interact and share services with one another. So to have a minority interest representing one company but not in the others places a very special business ethics responsibility on the management.

No matter how good and sophisticated your controls are, to organisations like ours that employ smart and intelligent people in a very competitive environment, where occasionally people get disaffected from time to time, regrettably we get employees who break the rules.

This is where management has to be careful, again, has to put its money where the mouth is, even when it is likely to lead to the termination of that employee, or the termination of a contractor or a vendor that has got a history of providing satisfactory or excellent service. You can't compromise here. You can't say, "well we've got these rules, but we need not apply them all the time, just most of the time, or that we apply them to just some of the people". Well, sometimes people think that we're over picky.

We are also committed to maintain high standards of safety, health and environmental care. Easy to say, but very difficult to do, and costs too much. But like the earlier speaker, I would also argue that every penny spent in doing this will repay itself ten-fold, or even many more times over that.

Maybe the thing that sets our organisation apart from some of these things that others also do is the very structured and systematic way that we put our policies and procedures in place through our management and operations. This is not a system that sits on people's bookshelves, but a system that line management toe, right down to the first line of supervision and to those who handle our contractors and vendors. Compliance is a requirement, not an expectation. This is what I am accountable for and when senior management from outside the country comes here, the first thing they want to know is what my safety and health and environment management results are like.

And secondly, and becoming even more important, is what is the status of compliance with the systems, policies and procedures that we have got in place, because, our argument is, you can get lucky for a while but if you've not got the systems and policies in place, you won't be able to eliminate all those potential accidents that can happen. You've got to be accountable for your results, and hold your managers and employees accountable as well.

So how are we doing in Malaysia? I would say very well. Our vision is – and one that all our employees understand – is that we never want to hurt anybody at work. It is not anybody's intention to get hurt while at work, and you cannot say that it is by chance that he got home safely. How can you tell people that?

We do have excellent performance by staff. And we have the industry statistics to prove our safety record. Among all the ExxonMobil companies around the world, the companies here stand at the top, both in performance and in safety. It's not a Malaysian versus Western thing, or a Malaysian versus anybody thing. These results can be achieved here. We have programmes in place to sustain that excellence, and our respect and concern for the environment is no less important.

We worked 11 million hours without an employee having an injury so serious that he

had to take time off work; and 22 million hours for our contractors. That is over four-and-a-half years, for people working with volatile and inflammable hydrocarbons, in extraction activities as well; a very difficult working environment in the Malaysian heat, using Malaysian contractors as well. Nobody need get hurt, as long a people don't expect to get hurt.

Our success depends on our ability to satisfy what the customer wants. This is another success of our business strategies and corporate citizenship. We have to be responsive at all times. That's sometimes hard, especially when one of the things that large international corporations are not good at is changing direction. We managed to put things in place by managing people years ago, so that we got a much more functional organisation worldwide, and we're much better at this now than we used to be.

We have to provide high quality products and services at competitive prices. And we have to invest worldwide in energy management. The fact remains that the energy demand in 2020 – a little more than 15 years from today – is going to be about 50 per cent higher than it is today. Oil and gas are going to take up a proportionate share of that growth.

We can always wish for more solar power, for more wind power. The cheapest, most reliable and the most easily deliverable form of energy currently is fossil fuel. And it's our job to do this as well as we can, and at the same time, to protect the environment. All the time, we are developing technology to lower the costs and improve the quality.

We share the same complaints from customers like the other two speakers earlier. It's very rare indeed that a customer calls to say what a wonderful service he got at our service station: it would be more like the toilets don't work or the station ran out of fuel.

But we remember that it's our customers who pay our bills, and that we have to be responsible to them. At the same time, we are committed to improving the long-term value of the investment dollars that our shareholders have put in, and expect us to grow for them. Ours is a long-term business, and therefore our strategies are for the long-term and our business model has to be based on excellence. If we make a bad investment, then we have to live with it. We also need operational excellence, that is, to get the most out of the investment dollars you've been granted. Everybody has to be responsible for the superior business performance.

We have an almost unique challenge in terms of how we relate to our shareholders. Our prime responsibility is to achieve those financial and operating results that come through only with excellent operation. And we have that record. We have a proven



record of even protecting the interests of minority shareholder interests. One of our minority shareholder companies is the Heritage Exxon Company, which has a 35 per cent minority shareholder interest. That poses a very special challenge to the management. We could ignore the minority interests. But we chose a different way: We engaged the minority interest in a very proactive way. We make sure that everything we do, in corporate stewardship and management of the business, we take into account the 35 per cent minority interests in exactly the same way as we take care of the other 65 per cent.

The corporate governance guidelines that we have put in place are very comprehensive. We adopted the General Control Statement earlier than the KLSE due date. We were the first listed company to submit a list of related party transactions to the KLSE and we worked actively with the KLSE in developing those guidelines. And we have been recognised in this area of corporate governance by the *Malaysian Business* magazine.

Despite the fact that the Heritage Exxon Company reported an after tax loss in the year 2002, we felt that it was right and appropriate to reward the shareholders, by declaring a dividend close to five per cent, including for minority shareholders. Now, there obviously aren't many companies that would declare to minority shareholders a dividend of five per cent during a loss.

We want to be good corporate citizens in all areas of our operations in Malaysia, just as we are in the other parts of the world. We place priority on doing our job well and we try to add value to our communities by the multiplier effect. We work with governments to address the needs of the societies in which we work, and we also work to transfer the skills, the technologies and capabilities, which stay behind long after we have gone, especially in those areas in which we are only transient participants in development.

We also give time and money to help those in need. We have been very active in Malaysia. We support national objectives and priorities. We listen and learn to find out what they are. Our head office in Dallas or Houston does not dictate to us what our local priorities should be. It's only us listening to the tone of society, and the government representatives we deal with, and more importantly, the relationship with Petronas makes sure that we learn. We share our views with others, not to lecture but to learn what we can.

We try to improve the quality of life through corporate giving. This is very targeted. It ends with specific projects. We don't give money to groups of people and say, "here is some money, try and find some meaningful way to spend it ...". We have a group of people and a large part of their job is to go out and seek out projects that are worthy, that are consistent with the aims that we have and consistent with the

government agencies' aims that have been expressed to us at dialogues we've had.

We encourage employee volunteer programmes. We assist financially, and we make time for our employees to work with communities. We have a very active community project programme called "Touching Lives Together". Between 15 and 20 times each year, individual departments will come out to do volunteer work in schools or orphanages and either paint the place, do repairs, rebuild, or take children out, give people a day out. We don't just do it with money; we do it with employee time. It's good for the employees, good for their families.

The exceptional quality of our workforce is a valuable competitive advantage. The employee is the vehicle through which all the work of the company is done. So, the selection, the training, the development of the employees is the key to executing any corporate priority.

We strive to hire and to retain the best people we can. We develop them, we train them and we keep them throughout their careers. We very, very rarely go out into the community to recruit people. We recruit people straight from college, and keep them throughout their careers. We have a diverse workforce and we try – though we don't always succeed – we try and provide a positive and productive working environment.

The programmes and things that we've got going on here are to try to improve our organisational effectiveness, and there's no end to this. It is not only popular, because more often than not it leads to the ability to do more with less, and again, how we treat the people at the end of that process. But it does provide an opportunity for greater responsibility and growth for those employees that remain with the organisation.

That also includes providing greater opportunities for our employees worldwide, even our Malaysian employees worldwide, I stress. We've improved the working environment for a lot of our employees. We ask a lot of our employees and often, we try to give something back. We strive to strike a balance between the management and the cost of running our business, and the self development of employees.

We monitor our ethnic diversity in the management and professional ranks very closely at all levels. We more than comply with all the local policy requirements. And I defy any organisation our size in Malaysia to have a better record of developing its women workforce.

At our building at the KLCC, we currently have about 300 employees, the vast majority of them Malaysians who are doing work that's got nothing to do with our Malaysian businesses. We are doing work for other ExxonMobil organisations in the Asia Pacific region. We have a talented and educated workforce in Malaysia and in three or four

years' time, that number of people is going to grow considerably. May be as our work in Malaysia shrinks, as the resource we are working with declines, we are going to find greater opportunities for our Malaysian employees to work outside the country.

For the first time since 18 months ago, we have more Malaysian employees working outside with ExxonMobil than we have expatriates working here. When I was here five years ago, we had a couple of hundred expatriates, but now we are down to 30 or 40. We have more than 100 Malaysians in the ExxonMobil circuit worldwide in senior management jobs, running significant parts of our organisation.

Social responsibility is important to us. We aim to be outstanding corporate citizens. We built it into our business through long-held business principles and commitments against which we measure ourselves constantly, everyday, every week, every year. And we are increasingly trying to communicate this to the society we work in, through word and deed. We believe in keeping our trust and commitments to our community and the shareholders.

There is no reason to doubt that industry in Malaysia can lead the world in this area of social responsibility, but it requires constant management action first, and talk about success later. The alternative is to launch ambitious, agency-sponsored programmes now, and hope that the results will come along. This, I think, is not what you would want.

You don't need to be afraid of corporate citizenship, or corporate social responsibility.. Regard it as an opportunity to improve the lives of employees, contribute to society in general, improve business results and enhance shareholder value. All of these things I would argue are the responsibility of managements anywhere in the world. And so, anything other than management taking responsibility by visibly leading, and being accountable for corporate citizenship policy and corporate citizenship results, is inconsistent with corporate citizenship as a basic concept of that organisation.

# Panel Discussion

**Chairman:** *Datuk Dr Mohd Ariffin Haji Aton*

**Panelists:** *Hussein Rahmat  
Roslan Abd. Rahman  
Mohammad Siraj Abd Razack  
Rob Fisher*



**MAJOR (RTD) RANJIT SINGH, OF FOMCA:** I address this to Mr Siraj, especially since you say that you are already practising corporate social responsibility. Rubbish collection in my area, Damansara Utama, is not done on schedule. Sometimes it is done in the middle of the day, and sometimes in the middle of the night.

Then the collectors, they gather the rubbish, in paper bags and plastic bags and leave it by the side of the road, and these become feasts for rats, strays and other pests.

The truck also leaks water. I know you also collect wet rubbish, food waste and all that. But the trucks leak this water all along the route, leaving a terribly stinking smell. Can you please stop this?

**SIRAJ:** As far as irregular collection is concerned let us discuss this later. You can also complain through our webpage, as some details are needed. This is no longer much of a problem today, though I admit that there are complaints now and then.

As for garbage disposal, in the countries of Europe, you need to dry your waste before you dispose of it. But in Malaysia, anything that's not wanted in the house goes into the garbage bag. Here too, we do not have a system to provide the people with proper garbage bins, like what you have in Europe and elsewhere in the West. This we intend to do. After full privatisation, Alam Flora will provide all households with garbage bins, which they will have to look after.

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*Dr Mohd Ariffin is the President and Chief Executive of Sirim Bhd Malaysia. He has been appointed President of the Malaysian Association of Research Scientists and sits on various national committees such as the National Council for Scientific Research and Development, Selangor Information Technology Council and the Malaysian Standards and Accreditation Council. He is also a member of the American Institute of Chemical Engineers, was elected as Foreign Member of the Russian Academy of Natural Sciences and is a representative of the Asian Pacific Centre for Transfer of Technology.*

You next complain is about leakage. You have these supermarket bags which are used for garbage. When it rains, they collect water, for as you know, many of these bags of garbage are left outside the house for the garbage trucks to collect. All these go into the truck, which from time to time will compact the garbage collected.

There is a water collector under the truck, which collects the juices that flow as a result of the compacting. Sometimes, when there is too much water, it overflows.

Then of course, there is this matter of standards. We have had in the past local councils that have brought down the standards for the trucks to collect garbage. You bring down the standards and you bring down the costs. This is what we have inherited, so what we have to do is to replace all vehicles that do not meet the standards.

We are working towards international standards. All our contractors will have to adhere to our standards. We also pay them standard rates. What we are paying are 1999 rates, which I admit have to be revised. If you pay them less, you cannot expect them to perform to the standards that you demand.



**CHITRA DASS, FROM HSBC BANK:** My question is to Mr Fisher. I would like to know more about your corporate service volunteer programmes. How do you organise this? Do you provide time off for your staff to get involved, to organise and carry out service activities?

**FISHER:** We have a committee for our community projects. Every year half the members of this committee are changed. Our service to the community involves schools, orphanages and institutions that depend on public support. This committee decides on which organisations are worthy of support each year.

Under our "Touching Lives Together" programme last year, more than 1,000 employees,

supported by their families, carried out 16 projects to help the needy and underprivileged. The management does not force staff to take part in this programme. In fact, the departmental or section managers also take part in it.

For example, if we are doing repairs to an orphanage, the company pays for all the materials that are required. The staff just volunteer their time and energy. Such jobs are usually done on a Saturday, from 9am to about 5pm or so.

Under our Young Entrepreneurs Programme, we go to schools, generate an idea for a project, come up with the marketing plan together with the students and give them a small amount of money as a start-up fund. The students then learn to come out with a workable plan for a business. This is our contribution to teaching the young entrepreneurship.

We have in a year 20 to 30 different groups working on 20 to 30 different projects. At the end of the year, these groups present their reports. Usually, we find that in the process, our employees also learn new things, and acquire new skills. As for time off for the employees, they usually do their projects on their rest days, except for the school projects, which have to be carried out during school hours. For this, they are given time off.

**CHITRA DASS:** This question is to Mr Siraj. I have been ignorant about the importance of old newspapers. Of course, many of us know about the “paper lama” (old newspapers) man. How can we contribute to your recycling campaign?

**SIRAJ:** The “paper lama” people only go around concentrated areas, such as large housing estates, to collect old newspapers, so that the exercise is cost effective for them. Taking your old newspapers to a recycling centre is a good alternative. You can check out our web pages for the addresses of the various recycling centres we have established.

If you are in a company or organisation, you can also organise a recycling day, say the first or last Friday or Saturday of the month, to collect all items that can be recycled. You can then arrange with Alam Flora to go to your place to collect these items.

We have a newsprint recycling plant in the country, which requires 24,000 tonnes of newsprint a month, but it gets only 8,000 tonnes, and so has to import the rest of the old newspapers required. So you see, what the “paper lama” people are collecting is just a very small amount.

**SIRAJ:** I have a question for Encik Hussein. For a company that has not heard of CSR at all, where does it begin?

**HUSSEIN:** The subject matter of CSR is very wide. There are many components to it, therefore it is best to begin by picking and choosing what we can do, what we can achieve within a reasonable period of time.

For example, in a factory, is the management complying with the health and safety needs of the employees, or the requirements under the law? We can consider improving aspects of worker safety; and we can also look into the environmental components – such as whether our procedures are environmentally safe, and whether our waste is properly disposed of.

You can start by picking up one aspect of CSR and then building on from there. Stick to the 3Ps and you won't go wrong. Like how do you eat an elephant? First you kill it, then you chop it up, and so on – and in the end, it is simply, one bite at a time.

**KORIS, VICE-PRESIDENT, FOMCA:** I would say that the commitment of the corporate sector to CSR is rather disappointing, going by the attendance this afternoon.

However, to those present, I have a few questions. My question to Alam Flora is on the use of biodegradable plastic bags, as these are available in the market. Are you going to encourage them, since gone are the days of carrying a rattan basket to the market?

For example, in the town of Ooty in South India, plastic bags have been totally banned. The people carry their own rattan or cloth bags when they go to the market. Prepared food that is purchased is packed in lotus leaves.

In the Scandinavian countries, the old people bring recyclable goods, dump them into a machine and get paid for them instantly.

I would like to ask Alam Flora also whether it is involved in any industrial waste disposal. I know you clear wastes at factories, but then, a lot of industrial wastes are stored in the backyards of factories.

From Tenaga Nasional, I would like to know: Squatters are supposed to be illegal settlers on government land. They are squatters because they have not been assisted with public housing. Yet, they can enjoy water and electricity. A squatter can apply to Tenaga Nasional for electricity, and you ask him to pay RM150 for the meter, RM400 as connection fee and then you also ask for a letter of recommendation from the “wakil rakyat” or elected representative. Why is this so?

To ExxonMobil: How do you manage your industrial wastes, especially engine oil?

**SIRAJ:** Yes, there are two types of plastic bags for garbage disposal, non-degradable and the biodegradable types. And it is difficult to stop the use of plastics because the people are reluctant to carry their own baskets or containers these days.

We can enforce greater control on garbage management when the Solid Waste Management Bill is passed by Parliament. Now, we operate only under the laws of the local government councils, which vary from council to council. Once the Bill, which is in the final changes of drafting, is passed by Parliament, then there will be a lot of changes.

As for the use of recycling machines, yes, these are widely used in Europe. Over there, when you buy a product, the cost of recycling has been added on. The use of machines for collection of recyclable goods is dependent on the economies of scale. Machines are used in Sweden because the cost of labour is very high.

As for industrial wastes, there are two types – scheduled wastes and non-scheduled wastes. We do remove non-scheduled wastes. As you know, there is a company responsible for handling and treating scheduled wastes. This is a costly affair. Keeping scheduled wastes in the factory premises is an act of irresponsibility. If it leaches, it will be a big disaster and we as consumers will have to pay for the damage.

As for our education programmes, we are doing as best as we can. Once we are fully privatised, we will do a lot more. We will allocate much more money to the education campaigns.

**ROSLAN:** The provision of electricity is a sensitive subject in some areas. Our objective is to electrify all areas. We are also answerable to the local authorities. Most squatter settlements are in areas where the local authority does not allow the land to be put to residential use. The laws vary from state to state, and we as a service provider are often caught in an embarrassing position.

There are also some well organised squatter settlements. They are as organised as housing estates, and the local authority allows Tenaga Nasional to come in and supply power.

There are some places too where for safety reasons we do not supply power, for example when the area is too low for wires. There have been times when we have disconnected power on grounds of safety.

**SIRAJ:** So, if you give squatters water and electricity, then they have a reason to be



there. And so, they will expect garbage disposal as well.

**FISHER:** We reclaim and recycle the waste in our upstream areas. If we don't do these ourselves, then we pay someone to do it. If we do it ourselves, then we can sell back the recycled oil. When we replace equipment, all the oil is drummed and disposed of properly.

Our service stations are run by individual operators and so in our service agreements, there are stringent requirements that all waste oil must be disposed of through approved disposal agents.

We also from time to time decommission equipment. This becomes scrap metal and in scrapping equipment, we follow all Petronas guidelines.

**HUSSEIN:** Let me just clarify at this point. All foreign oil companies operating in Malaysia are contractors of the national oil corporation Petronas, and they will have to follow Petronas' Code of Good Practices.

**ARIFFIN:** Education has to begin in the home. Modern Malaysians think that education is the school's role. It is wrong. The role of consumers is to educate their children. FOMCA should be playing a more active role in this area. Learning must begin at home.

I also have this problem with the term "biodegradable plastic". How can plastic be biodegradable? Plastic is polyethylene and if anything is biodegradable, it must be starch or cellulose.

I understand that there is one company trying to interest the government to get consumers to use its "biodegradable plastic bags" made from polyethylene and starch.

**HUSSEIN:** There are many reasons for which we need standards in CSR. For example, we have reporting requirements, but then you also have guidelines on how to go about this reporting.

A tight management system would also be required to ensure that CSR of a standard is adopted.

We in Malaysia have CSR requirements and CSR standards that can be put into use. These are in patches, here and there, and what we need to do is to apply the glue to cement all these together to become more workable.

We need a CSR system, or a standard, to guide us through. We can of course pick up on the initiatives that have already been implemented elsewhere. This is why the ISO standard for CSR will be important. Developing countries are allowed to participate in this standards-formulation and contribute to it.

**SIRAJ:** I do agree that it is good to have a standard that is universally recognised. It will help us to benchmark, to work towards a target.

**FISHER:** While the objective or desire to formulate international guidelines is commendable, I must caution that it becomes very difficult to impose values across cultures, across nations, and across corporations and the industry. This can be very dicey, especially if it becomes law.

**SIRAJ:** The ISO Standards used to be very prescriptive. For example, the ISO90001 version of 1999. However, in the 2000 version, the prescriptive slant has been taken out and there are now broad guidelines.

Companies can actually do more. For example, the ISO 14001, which are guidelines for process management, are not prescriptive. It is therefore left to the individual businesses concerned to set its own standards based on the guidelines.

**HUSSEIN:** We have the guidelines. What we need to do is to organise them, and find a way of managing them. If recommendations are kept at the guideline level, then we can work with them.

**ARIFFIN:** I would like the opinion of the Director of Standards on this.

**FADZILLAH:** This is a very new topic for Malaysia, and for many other countries of the world. Like Fisher said, there are long-established businesses that have CSR practices built into their business practices. The government is open to these things. As for myself, I would say that it would be good if the industry itself were to take up CSR.

**ASFARANI:** This regards to your 3Ps for CSR – Profit, People and Planet. Will people be the bottom line? How do you ensure that there is a balance, and that in the end there will be peace for all?

**HUSSEIN:** The responsibility belongs to the organisation. The activities of certain organisations will impinge on the environment, such as those in logging, construction and chemicals. So, the environmental factor in CSR will be much heavier. This is where you will need the relevant experts to come in to assess possible damage and work out the least damaging methods.

As for the welfare of the people, the minimum you have to do is to comply with the laws, which provide for the basic standards of protection or safety. The thing is, do the people know what the laws are and how they are protected? For example, our human rights organisation, Suhakam. People may know about Suhakam, but do they know what their human rights are?

**SIRAJ:** The matter of hiring experts may be difficult for small companies. They may not have the economies of scale to hire the experts.

**HUSSEIN:** There always has to be flexibility in management systems and standards. Like for example the case of Sony Corporation. You can't work with them if you do not have a safety management system and an environmental management system in place. However, Sony will help your company to achieve this.

**FISHER:** It is inherent in the question that all corporations will have to honour the 3Ps if they are to do business anywhere. More often than not, companies do honour at least the local laws.

**KORIS:** I beg to differ with Mr Siraj. Under the Construction Industry Development Board, there are stringent checks on all contractors. Even the smallest ones are checked and verified.

**SIRAJ:** I meant Japanese contractors. They squeeze the small time contractors. They want jobs done, but they don't provide the guidelines that companies such as ExxonMobil would provide.

**N. MARIMUTHU, Secretary-General of FOMCA:** I have three questions for all members of the panel:

1. Do you all have some form of written CSR policy?
2. CSR is not about dollars and cents. You would need to consult civil society as well, to get their participation. None of you have addressed civil society participation. Would you care to address this, please?
3. This last is to the three speakers from the service industry: What kind of complaints handling mechanism do you have in force?

**FISHER:** We don't have what you would call CSR. We have Corporate Citizenship. It sets out the guidelines that ExxonMobil and all its employees, wherever they operate, will have to follow.

**SIRAJ:** This is the first time I am hearing the term CSR. We at Alam Flora have, for some time now, been doing a number of things that fit into CSR.

**ROSLAN:** As far as TNB is concerned, we have a document on Business Social Responsibility. It is much like the CSR and it is written and we have to follow it.

**HUSSEIN:** At this point, CSR is not nebulous. It is diffused. So, corporations will have not CSR per se. CSR is as big as an elephant, and there are many facets to it.

**SIRAJ:** We have a complaints handling mechanism, but we intend to move on to a more sophisticated system.

**ROSLAN:** We have a complaints handling mechanism. If a large corporation does not have it, then surely something is missing.

**FISHER:** On staff attitude, social responsibility is high. Business responsibility and social responsibility will have to go hand in hand.

**SIRAJ:** It's a delicate balance. Corporate policy may be this and that, but profit is still the bottom line. Like gotong-royong ... we know how many to do, budget for it and provide the necessities. It is based on affordability ... more profit, more social work. You have to get wealth in order to share the wealth.

**ROSLAN:** We too do our social service. We must realise that the cost of electricity per unit is the same anywhere, in Petaling Jaya, Kuala Lumpur or in Kota Baru. But the requirements are different.

**CAPT (RTD) WAN, OSH DYNAMICS:** Mr Siraj, you said Alam Flora has 650 contractors. I can imagine how difficult it can be to manage them. But they can be managed. They can be guided on a mentor-mentee basis. Do you have such a system, and how do you go about this?

**SIRAJ:** We have what we call the "reengineering" of the private contractors that we inherited from the local councils. We get them to follow certain standard procedures, and we start, for example, with the workers having standard uniforms in each state, and a standard colour for the vehicles, also state by state.

**ARIFFIN:** Dr Webb, at this point, I would like your comments. Where do you think CSR is moving in Malaysia?

**WEBB:** People here are approaching CSR in a very flexible manner, and that is good. You move along an intimidating manner and it will not help anyone. There must be

appropriate and flexible systems that must be built, from bottom up. These will work, whether with small, medium or large corporations.

**ARIFFIN:** I will not attempt to summarise this afternoon's session. I would say though in conclusion that CSR is here to stay, that we would have to accept it and to adopt it in our work culture. Like corporate governance, CSR is our responsibility.

If we do not start doing something about CSR now, it will only be a matter of time before, as concerned citizens, we ourselves will be asking how come these benefits are not felt by us. As Dr Webb has put it, CSR is a natural consequence of human evolution.

Thank you.

## About FOMCA

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The Federation of Malaysian Consumers Associations or FOMCA, as it is widely known, is a national non-governmental organisation that is voluntary, non-profit, non-political and civil minded. It is the umbrella body of registered consumer associations in Malaysia. FOMCA, which was founded on 10<sup>th</sup> June 1973 links the activities of consumer associations in Malaysia as well as at international level and works together towards strengthening consumer protection. FOMCA is a movement of the people, by the people and for the people. Its main concern is not only value for money but more so, value for people.

FOMCA is not only a consumer organisation, it is also a development organisation. FOMCA's aim is to create independence amongst consumers i.e. "The Best Protection is Self Protection". FOMCA also strives to create a wise and empowered consumer.

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