Social Engagement

The Changing Nature of CSR in Asia Pacific

March 2008
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March 2008

Dear Colleagues,

Corporate Social Responsibility (CSR) is not ‘good PR’. In fact, business managers — and public relations professionals — who mistake CSR for ‘good PR’ can damage a company’s reputation.

Understanding what Corporate Social Responsibility is and what it is not, and knowing how to advise businesses on the competitive advantages and risk mitigation outcomes resulting from CSR practices are essential for public relations advisers and functional managers.

Historically, CSR in many parts of our region has been defined either by the West (NGOs, governments, small groups of ethical investors and special interest groups with disproportionately loud voices) or by the family, friends or cronies of well-connected elites heading various philanthropic organizations in local markets. Today, for reasons we cover in this paper, CSR is being increasingly defined by grassroots civil society.

Community groups, local governments, NGOs, passionate consumers, employees and others who are directly impacted by businesses’ manufacturing, marketing, sourcing and selling in the ‘global collection of local markets’ are banding together to create (or to force) dialogues with business about socially-responsible and sustainable business practices. Web- and mobile-enabled channels of communication are strengthening the voices and the reach of local communities and knitting them together into a global community.

In this paper, we look at the conditions in our region that are converging to mandate sustainable business practices. We also examine the concept of what we call ‘Social Engagement’ and how that enables businesses and communities to work together for mutual benefit.

I hope you find our paper informative and useful. I invite you to send me an e-mail with your thoughts and feedback. You can reach me at alan.vandermolen@edelman.com. You can also read my blog — www.uncorkedasia.com — or visit our regional website at www.edelmanapac.com.

Sincerely,

Alan VanderMolen
President, Asia Pacific, Edelman
The Changing Face of CSR in Asia Pacific

Traditionally, all a company had to do to be considered socially responsible in Asia Pacific was to make regular charitable donations. This approach to CSR is no longer enough.

Not so long ago, companies in Asia Pacific that wanted to be seen as socially responsible could literally buy a good reputation. A well-placed gift with a leading politician’s favorite charity, a contribution to a disaster relief fund or the sponsorship of a new hospital would give a company the social license it needed to operate.

Often, though, these acts of philanthropy were not necessarily related to a company’s core business and sometimes were part of a thinly-disguised marketing program or public compensation for questionable behavior.

This approach to corporate responsibility is increasingly out of step with stakeholders in Asia Pacific.

Since 2003, Edelman has been conducting an annual 10-market study in the region to understand stakeholders’ expectations of corporations. An unmistakable trend that we have observed is the dramatic rise in expectations with respect to environmental, social and governance issues. It’s a trend that is consistent with the growing interest in climate change, water scarcity, labor laws, corporate governance and other CSR-related issues now appearing regularly on newsstands, on government agendas, in online communities and in corporate boardrooms.
Edelman's research into what constitutes a responsible company in Asia Pacific shows that business tangibles such as ‘high-quality products and services’ were the dominant factor a few years ago. Today, a range of other factors on how a business conducts itself as a member of society are also part of the mix. Our research suggests that Asia-Pacific stakeholders accept the need for companies to generate reasonable profits; however, there is also a strong requirement for these companies to make real, measurable contributions to the community in order to be considered ‘good and responsible’.

Five of the eight characteristics used to define a ‘good and responsible’ corporation are related to environmental, social and governance issues. In the past year, two key CSR-related characteristics have grown faster than any other in importance:

- ‘Communicates frequently and openly with employees’ saw the largest increase from 2006 (up 14%).
- ‘Concerned about/active in doing something about community welfare’ saw the second biggest jump over 2006 (up 13%).

What is clear from these changing expectations is that companies today must understand and engage in dialogue with stakeholders on relevant ‘business-society’ issues in order to maintain their social contract and corporate reputation.

Edelman’s response to this changing dynamic is a dialogue-based approach to CSR that we call Social Engagement.

Social Engagement seeks to create an environment where a company can effectively engage diverse stakeholder groups, manage and communicate its social and environmental impacts and formulate locally-relevant initiatives through meaningful multi-channel, transparent and real-time dialogues.

Specifically, Social Engagement involves:

1. Addressing social and environmental issues through business-aligned CSR initiatives and communications
2. Engaging and partnering with stakeholder groups (NGOs and local governments) at the grassroots level, and
3. Aligning brands with Asia Pacific’s growing passionate consumer interests to jointly address social and environmental causes.

Before examining this concept in detail, however, it is important to understand the drivers behind the changing dynamic in Asia Pacific and their implications for companies doing business in the region.

▼ How important are the following characteristics for good and responsible corporations?

<table>
<thead>
<tr>
<th>Characteristics of a Responsible Corporation in Asia</th>
<th>Reg 07</th>
<th>Reg 06</th>
<th>Reg 05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offers top quality products/services</td>
<td>86%</td>
<td>80%</td>
<td>81%</td>
</tr>
<tr>
<td>Stands behind its products/services when something goes wrong</td>
<td>86%</td>
<td>80%</td>
<td>78%</td>
</tr>
<tr>
<td>Provides senior leadership that can be trusted</td>
<td>78%</td>
<td>72%</td>
<td>70%</td>
</tr>
<tr>
<td>Communicates frequently and openly with employees</td>
<td>73%</td>
<td>59%</td>
<td>52%</td>
</tr>
<tr>
<td>Operates in an open and transparent fashion</td>
<td>67%</td>
<td>58%</td>
<td>54%</td>
</tr>
<tr>
<td>Makes products that really impress people</td>
<td>63%</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Works hard at building relationships with core shareholders</td>
<td>62%</td>
<td>51%</td>
<td>46%</td>
</tr>
<tr>
<td>Concerned about/active in doing something about community welfare</td>
<td>54%</td>
<td>41%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Base: Regional 06 & 07: 1050, Regional 05: 912
Corporate Responsibility in Asia Pacific Today

As social and environmental challenges increase in Asia Pacific, governments, NGOs, consumers and employees are putting unprecedented pressure on corporations to behave responsibly. Our research has identified five main factors driving this trend.

"Stakeholders are now examining both financial performance and non-financial performance when assessing a company."

The business environment in Asia Pacific today is undergoing monumental change as corporations come to grips with the enormous pressures being exerted on them to behave responsibly.

This transformation is taking place against the backdrop of the region’s dramatic economic development, a phenomenon that has been widely documented in the media. Less well-documented is the story of how businesses in the region are engaging their key stakeholders on local issues that have global importance.

In our research we have identified five major drivers that are reshaping stakeholder expectations and impacting corporate responsibility in the region:

1. Social and environmental challenges
2. Government activism
3. Growing influence of NGOs
4. Internet and mobile communications
5. Passionate consumers and employees
1 Social and environmental challenges

Asia Pacific’s sustained and rapid economic growth has created pressures on the physical and social environment, in many cases to unprecedented levels. At the same time, vast numbers of people are still living below the poverty line. For example, although explosive growth has reduced poverty in China the region as a whole has more than 600 million people living on less than US$1 per day and about 1.8 billion people on less than US$2 per day (Asian Development Bank, October 2007).

Making a bad situation worse, the trend towards urbanization with growing numbers of workers moving into new mega-cities is aggravating the wealth gap, leading to greater social inequity and thus instability.

Asia Pacific also faces the twin challenges of ensuring energy security and preventing environmental degradation. From air pollution in Hong Kong and water and food scarcity in India to the reduction in biodiversity caused by deforestation in Malaysia and Indonesia, these pressures are diverse and growing in severity.

Social and environmental pressures are affecting companies in Asia in two ways:

1. They are forcing companies to find more efficient means of consuming and using resources, and to better manage the social impact of their business, including taking care of employees and managing the social performance of suppliers.

2. They are inspiring ever-greater activism among influential stakeholders and raising the bar for companies entering into social contracts. This is due to an increased understanding of how business in general contributes to these pressures and declining trust in governments’ ability to find solutions to the social challenges facing them.

Accompanying this rise in activism, stakeholders (including employees, investors and customers) are now examining both financial performance and non-financial performance when assessing a company. Indeed, there are numerous global indices, such as the Dow Jones Sustainability World Index and the FTSE4Good Index, that list the leading companies taking on opportunities and managing risks stemming from economic, environmental and social developments.

2 Government Activism

Governments across the region are taking an increasingly active role in enforcing change in the corporate sector by enacting legislation on social and environmental performance. Within this changing regulatory landscape, companies that voluntarily manage their social and environmental impacts will be better adapted for the future and thus more competitive in the long term.

Some government-led examples of change include the following:

- In China, the government announced on October 15, 2007, that repeat pollution offenders will be prevented from selling their products on the international market. The new rules were drafted by the State Environmental Protection Administration (SEPA), in collaboration with the Ministry of Commerce.
- In Indonesia, the government has included ‘CSR’ as a mandatory requirement in its revision to Article 74, which affects all companies “engaged in natural resources or those in business in connection with natural resources.” The passing of the revised legislation, although it still does not clearly define CSR, makes Indonesia the first nation in the world to enact such a bill.
- In Malaysia, public limited companies in their annual reports will soon be required to disclose their CSR activities, employment composition by race and gender, and programs undertaken to develop domestic vendors.

Another way governments are demonstrating their concern for the social well-being of their citizens is through the enactment of more stringent labor laws:

- In China, the new Employment Contract Law came into effect in January 2008, providing greater protection for individual employee rights and strengthened unions, employee representative congresses and collective contracts.
- In Korea, the government introduced a new labor law, in force since July 1, 2007, that provides a safety net for non-regular workers who previously faced discrimination in regard to welfare and other benefits.
- In Australia, workplace laws became a key issue in the federal election in November 2007, following several years of fierce debate on reform of the industrial relations law.

In this changing business environment, companies must now take greater account of their social and environmental performance across all levels of the value chain, including that of their suppliers. Today, increasing government interest and activism in the region is forcing companies to address their societal impacts, whereas in the past this was done mostly on a voluntary basis.
In April 2007, fast-food chains McDonald’s, KFC and Pizza Hut were investigated by government labor bureaus in southern China after newspaper New Express Daily reported that the companies were paying part-time workers less than the local minimum wage. The companies fell victim to The All-China Federation of Trade Unions’ new campaign to boost the group’s presence in foreign companies.
3 Growing influence of NGOs

The number of domestic and international NGOs continues to expand across the region. With the growth of communications channels such as the Internet and mobile devices, domestic and international NGOs are increasingly able to communicate and work together across borders on issues of mutual interest.

As NGO networks become more organized, larger international and domestic NGOs are cooperating with smaller local NGOs and community groups in rural areas to help build capacity and increase influence. Domestic NGOs monitoring corporate activity on the ground are now able to reach larger organizations, which can then bring issues to light on the national and international stage.

For example, the Institute of Public and Environmental Affairs (a well-respected Chinese NGO based in Beijing) publishes a 'name-and-shame' corporate water pollution map. The Institute also provides environmental audit training to local NGOs in rural areas so that they can better monitor corporate environmental performance in remote areas of China.

This has a corresponding impact on the credibility of NGOs throughout the region. According to our 2007 Edelman Asia-Pacific Stakeholder Study, NGOs continue to be the second most trusted institution in Asia Pacific, ahead of the media and business, but behind government.

NGOs and governments in Asia Pacific have traditionally struggled to define their relationship and often found themselves on opposite sides of the ideological fence. Governments committed to rapid growth and industrialization as a path to national wealth have locked horns with NGOs both on the international stage and in their own back yards. However, as issues such as environmental protection and corporate transparency assume greater importance within the public debate, government policy makers and NGOs are increasingly finding their interests becoming more closely aligned. As a result, NGOs are communicating more frequently with government, gaining greater influence and moving social and environmental issues further up the government agenda.

This new NGO-government dynamic, combined with increased coordination among NGOs and the relatively high levels of trust in NGOs across Asia Pacific, is creating stronger, more powerful NGO networks in the region and an increasingly influential voice in support of more responsible business.

How much do you trust each of the following institutions to do what is right?

Base: 700 (Percentage equals top three box scores for each institution; ratings are from 8 to 10 on a scale of 1 to 10.)
4 Web and mobile communications

Underlying — and magnifying — the impact of the trends discussed so far is the proliferation of the Internet and mobile communications in Asia Pacific. Access to information in Asia Pacific is widespread, and it is growing at a rate above the world average (from 2000 to 2007: 347% in Asia Pacific vs. 265% in the world). As of October 2007, according to Internetworldstats.com, there were 510 million Internet users in Asia, or 38.7% of global Internet usage.

The use of mobile devices is also skyrocketing in Asia. China alone at the end of 2007 had 450 million mobile subscriptions. Over the next decade, Asia will become the largest regional mobile telecommunications market in the world, according to In-Stat, a leading researcher of digital communications trends.

As Internet use increases across the region, its influence as a credible source of information has grown significantly, according to Edelman’s Asia-Pacific Stakeholder Study. In 2007, trust in web-based media surpassed local mainstream media and almost matched international media.

This has significant ramifications for companies in all areas of their activities, especially their corporate behavior. The global debate made possible by the Internet allows an expanding universe of stakeholders to scrutinize corporate activities to an unprecedented degree, while providing an important barometer of the issues that matter to them.

Through blogs, online petitions, videos of environmental destruction or websites created to protest the labor practices of a specific company, stakeholders are increasingly speaking their minds locally with global impact. Moreover, their views are being regarded as credible, giving them the means to damage (or elevate) corporate reputation to a greater extent than ever before.

Balancing this shift to a consumer-led dialogue is the greater trust stakeholders place on information from corporate websites. The Edelman study indicates that stakeholders will usually go to a corporate website first for information about that business. Yet, in a note of caution for companies, the next source of information is likely an employee or ‘inside source’ to confirm the information. This underlines the importance of maintaining transparent employee dialogue and making sure that online content stands up to investigation.

You have US$100 to purchase information on a corporation. Assume that the price of information from each source is the same. You must spend all $100. How would you allocate the money?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate websites</td>
<td>29.4</td>
</tr>
<tr>
<td>Friend at corporation</td>
<td>24.3</td>
</tr>
<tr>
<td>Daily newspaper</td>
<td>19.9</td>
</tr>
<tr>
<td>Business blog site</td>
<td>14.7</td>
</tr>
<tr>
<td>Local TV</td>
<td>12.9</td>
</tr>
</tbody>
</table>

Base: 1050
In the fall of 2006, Apple came under fire after grainy photos taken on a mobile phone exposed working conditions at a Foxconn (an Apple supplier) factory in China. The media stories focused on the long hours and low wages of the factory workers, causing great embarrassment to Apple, which had previously used Gandhi and labor leader Cesar Chavez in their advertising. It also illustrated the powerful combination of the web and mobile devices for NGO monitoring groups.
5 Passionate consumers and employees

The rise of the Internet and the increasing availability of information is empowering consumers and employees as never before, helping them become more vocal and more audible. Information about a company or organization provided by an employee or fellow consumer is significantly more personal than information obtained directly from the organization itself.

In addition, according to the 2007 Trust Barometer consumers are more likely to take action in favor of organizations they trust and against those they distrust. Losing the trust of consumers can lead to one of three most-likely outcomes — they will criticize the company to people they know, actively demonstrate or protest against the company, or refuse to work for the company.

However, companies also have the opportunity to bring these passionate consumers closer to their business and to engage them in mutually socially responsible activities, acting together to effect positive social change.

The desire to become more socially involved is a global trend among consumers. Edelman’s 2007 goodpurpose study shows that ‘helping others and contributing to the community’ is second only to ‘spending time with family and friends’ as sources of contentment among consumers globally. When asked if they were less or more involved in good causes than they were two years ago, Asian consumers echoed the global trend by indicating a far greater sense of involvement.

As described previously, employee communications have grown as a trust builder and indicator of good and responsible corporate behavior in Asia Pacific. In a recently published Edelman study (February 2008), Corporate Responsibility & Sustainability Communications: Who’s Listening? Who’s Leading? What Matters Most?, most companies interviewed agreed that employees are the most important audience for CSR communications. Directing CSR communications to employees further ingrains CSR into the company’s culture (which in turn enhances corporate reputation), while also providing personal satisfaction and empowerment.

Consumer and employee passion, however, can be a double-edged sword. Computer-maker Dell, for example, faced public scrutiny from passionate consumers in China after one customer complained via an online forum that the company had shipped a notebook with a different chip from that advertised on the Dell website. The following day the online forum, IT168, invited customers to share their problems with Dell and set up a ‘Dell Hell’ section to track the issue. Within a few days, Dell was facing a class action lawsuit from over 200 customers after a Shanghai-based lawyer posted a message on the forum expressing an interest in representing them.

In response to online criticism, Dell has reached out to consumers and provided them with a forum for direct discussion with the company. This action has helped Dell rebuild trust and enhance its corporate reputation.

While the Dell case highlights the potential risks that companies now face, the opportunity to engage consumers and employees on ‘social’ issues and strengthen their trust should not be understated. Employees and consumers are both poised to participate with, and be empowered by, companies that dare to take on societal issues.

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1 The Edelman Annual Trust Barometer tracks the attitudes of nearly 2,000 global opinion leaders – which institutions, companies, sources of information they trust, what drives that trust, and the credibility of institutions.
2 The first annual Edelman goodpurpose study (2007) is a nine-country consumer report that assesses the attitudes of people, what they are doing in multiple areas of social purpose, and how they’re looking to brands to engage them in making a difference.

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Aligning Business, Government, and NGOs

Our stakeholder study demonstrates that the interests of business, NGOs and government are more aligned than previously believed. In fact, business, government and NGOs are increasingly in alignment with respect to what constitutes good and responsible corporate behavior.

▲ Communicate frequently and openly with employees
▲ Concerned about and active in doing something about local community welfare
▲ Operate in an open and transparent fashion
There are two broad strategic objectives of Social Engagement: risk mitigation and competitive advantage.

The rise of web and mobile communications has made the objective of risk mitigation more obvious in Asia. The illustrated scenario discussed below shows how a local non-compliance issue can escalate into a crisis for headquarters.

Day 1 – A whistle blower (e.g. an employee working at your factory or the factory of your subcontractor) informs a local NGO monitoring group about long working hours and unfair compensation. The whistle blower may even provide pictures of factory conditions taken from a mobile phone. The local NGO contacts local media and informs its international NGO partners abroad.

Day 4-5 – The local story is picked up on bulletin boards (BBS) and blogs by citizen journalists. The story that hit local news is translated into English and posted on a site that is read by local, regional and international influentials. Meanwhile, the international NGO is contacting international media.

Day 6-7 – The story begins to be picked up by international blogs and continues to proliferate through various local and international online and mainstream media

Day 8 – The story is published in influential mainstream media publications and proliferates across the worldwide web, creating a very bad day at global headquarters.
The Need for Social Engagement

Global corporations are implementing CSR programs as never before, yet those programs might not have relevance at the local level. Social Engagement, using both traditional and digital channels, can provide the insights required for effectively addressing local needs.

The implications of the five drivers we have discussed are profound as they have the potential to affect companies at both the local and global level. Understanding these drivers provides insight into why stakeholder expectations are changing across the region and how this is affecting the way companies manage corporate reputation.

Most notably, multinational corporations now face unprecedented risk at all levels of their value chains, particularly at the local community level in the region’s markets.

We have identified a fairly large gap between the corporate responsibility and sustainability policies of US and European-based headquarters and the initiatives put in place at local operational sites in the region. Policies related to emissions, for example (and to a lesser degree labor), are being widely implemented, yet those policies might not meet the more pressing needs and expectations of stakeholders on the ground. More than ever before, this gap can result in local level conflicts that rapidly develop into global issues.

“Multinational corporations now face unprecedented risk at all levels of their value chains.”
A Changing Model of Corporate Reputation in Asia Pacific

In 2006 Edelman published “The Reputation Pyramid”, a blueprint for corporate reputation management in Asia Pacific. The blueprint was based on three years of regional stakeholder research and provided the architecture for building a strong corporate reputation.

The pyramid was founded on a base of relative trust in business vs. governments, NGOs and media. The three sides of the pyramid reflected the reputation drivers of product and service quality, management practice and social accountability.

Over the past two years, this model has evolved. Product and service quality are still important, but now the definition of what constitutes “quality” also includes social and environmental integrity. Management practice remains much the same. As social and environmental factors become material issues to stakeholders, how a company addresses these factors becomes an indicator of management aptitude.

This increase in expectations of companies both foreign and domestic within Asia Pacific demands a reexamination of what it means to be a responsible corporation in this region and has important implications for corporate behavior and corporate communications.
Companies operating in Asia Pacific frequently find it a challenge to apply consistent CSR policies and programs across markets in various stages of economic development and with significant cultural differences.

We have identified two major internal CSR challenges that corporate leaders in Asia Pacific are now struggling to manage: vertical pressure to balance global commitments with local needs; and horizontal pressure to effectively manage social engagement across widely differing local markets and distinctively-focused business functions.

Applying global CSR commitments uniformly across Asia Pacific is often impractical. Many Western multinationals are feeling top-down pressure from distant head offices to implement CSR programs in the region that align with global commitments. Yet there is also bottom-up pressure to meet local needs and local stakeholder expectations. In many cases, these two opposing forces are at best imperfectly aligned and at worst in direct conflict. For example, if climate change is part of a company’s global CSR initiative, but malnutrition and education are the major social challenges at the local level, which issues should take priority? And how does that company most effectively allocate its resources?

Similarly, Asian multinationals, especially those from developing economies, face pressure both from internal stakeholders to contribute to national development and from local and multinational NGOs and community groups to slow development to a rate less damaging to the environment. Again, these demands are not necessarily aligned.

Companies need to be acutely aware of ‘real’ stakeholder needs when creating and implementing CSR programs; if not, they risk implementing programs that align with head office but have minimal impact on the business and the community at the local level.

Another challenge is determining how to structure CSR ownership within the company. Issues previously handled by a CSR, corporate communications or public affairs department are now beginning to have a material impact on other departments, such as marketing, operations, legal, human resources, and even investor relations.

It is important to engage all of these functions when addressing social issues to ensure that the company adequately understands and responds to stakeholder expectations and the changing corporate reputation model. However, the result is often a set of misaligned social and environmental messages and actions that are usually indicative of a lack of internal coordination. Without close inter-departmental communication, these functions can...
find themselves working at cross purposes and diminishing the value of the company’s CSR activities.

The way to effectively address these unique regional CSR challenges and, more importantly, to navigate the dramatic shift in perceptions in Asia Pacific, is through Social Engagement. This entails an open and honest discussion about social and environmental issues with stakeholders at every point in the value chain – suppliers, employees, investors, NGOs, government and, increasingly, customers. Implicit in this approach is the need to listen to their views and address their concerns.

To do this effectively, we believe it is imperative to use both digital and traditional communications channels. Traditional engagement involves one-on-one or group meetings, focus groups, briefing sessions, and printed materials. Digital communications have become so important that companies operating in the region must place equal weighting on these channels, including interactive websites, employee blogs, bulletin board systems, and social networking sites.

As demonstrated by our data, stakeholders in Asia Pacific trust corporate websites for finding information about a company and go there first. The web is thus an effective channel for communicating social and environmental strategy and for ensuring it has local relevance. Given the remarkable increase in web usage across the region and the rise of word-of-mouth as a trusted source of information, companies need to be engaged with online communities in both proactive and reactive ways. As was the case with Dell, social issues about a company will often surface online.

Internally, creating a cross-disciplinary Social Engagement team both within and across the network can be invaluable for ensuring a unified voice in regard to social and environmental performance. Within the company, it is essential to unite marketing, operations, communications, human resources and senior executives in regular dialogue for a consistent, company-wide approach.

This internal organization will help companies manage the top-down, bottom-up dichotomy they face operating in diverse markets across the region. Moreover, openly addressing this misalignment will help global and regional headquarters better understand the social realities on the ground, while providing local operations with strategic guidance and the opportunity to organize global/regional experience and resources.

This multi-layered, end-to-end approach will ensure that companies are well-positioned to maximize their investment in Social Engagement.
The Social Engagement Quadrant: Where do you fit?

The Social Engagement Quadrant is designed as a quick diagnostic tool for companies that wish to assess their Social Engagement activities.

The Knowledge/Know-how Line describes the level of a company’s understanding of key stakeholder groups’ expectations with respect to its impacts on society, in addition to its internal capabilities to sufficiently address those expectations. This is also an indicator of how well-aligned the company is with the social interests of a broad range of stakeholders. The Action Line simply indicates how involved a company is in addressing its social and environmental impacts.

The quadrants:

1. Passive: These companies are not engaged in regard to social issues, nor are they taking any action. In our experience, a number of companies in Asia Pacific are still playing a passive role in terms of CSR. These companies do not engage with stakeholders on social issues and thus are not aligned with their expectations.

2. Informed Observer: These companies may engage their stakeholders on social/environmental issues and understand their concerns. They do not, however, take much action. This could be a result of being unsure how to proceed beyond the initial stages of stakeholder dialogue, lacking the capabilities to execute more advanced socially responsible practices, or even encountering internal resistance because of a lack of commitment by senior management.

3. Feel Good: Companies that take a CSR-as-charity approach. In Asia Pacific, company websites and annual reports are replete with examples of donations to worthy causes, investment in communities through in-kind donations, or other similar activities. This approach falls well short of what stakeholders expect of ‘good and responsible’ corporations. Companies that fall into this quadrant do not proactively engage their stakeholders on social issues, nor do they really understand the full impacts of their business on the communities in which they operate.

4. Socially Engaged: These companies take proactive steps to understand what is expected of them by participating in a dialogue with key constituents about important social and environmental issues and take concrete action to address these expectations.

Socially Engaged companies create value for the business through risk mitigation, cost savings, the identification of new business opportunities (i.e. access to capital and/or new markets) and measurable stakeholder preference, while delivering significant value to the communities in which they operate.
To help companies in Asia Pacific demonstrate greater social responsibility, we have established a process that enables them to integrate Social Engagement into their business practices. Through this process, they can mitigate risks associated with social and environmental performance and take a leadership position in the area of CSR and Sustainability.

Edelman perceives this process as a virtuous cycle of trust comprising the following stages:

1. Get your house in order
2. Listen to new voices
3. Converge around ‘big ideas’
4. Be an advocate

Phase 1 – Get your house in order

It is easy for a company to say, “We don’t break the law, therefore we are responsible.” However, in a region where concepts of social responsibility are still very much emerging, companies that wish to lead in this field must set the standard in their own activities. This involves putting one’s own house in order through the process of Social Engagement.

A critical first step in the Social Engagement process is to address the company’s social and environmental impacts on stakeholders and the communities in which it operates. This means engaging and enrolling employees and other stakeholders in the social and environmental issues affecting the business.

We firmly believe that stakeholder dialogue is the foundation of socially responsible business practices. By identifying the stakeholders who are most important to the business and then participating in open, meaningful two-way dialogue with them, companies will begin to better understand the areas on which they must focus.

Once the main issues are identified, the company can assess its performance in these areas through an internal audit. In addition to a technical audit, the assessment may also involve looking closely at existing CSR programs to ensure they are meeting real stakeholder needs. This will likely require gathering further insights from local governments, NGOs and community groups.

Ideally, the audit will result in the incorporation of social responsibility performance indicators into every phase of the business, building them into performance evaluations, tracking and reporting. This has the dual advantage of demonstrating commitment and return on investment — the key to maintaining the interest of senior executives.

This phase of the Social Engagement process is a difficult operational challenge and requires close coordination among human resources, management, line managers and supervisors, finance and so on. In other words,
As part of its global effort to address climate change, HP has partnered with WWF in India and China to pioneer a program that raises awareness of the tangible consequences of climate change through online stories, videos and photographs. The program, Climate Witness, leverages HP technology and helps HP-WWF establish deep relationships with a diverse range of stakeholders at the community level, thereby ensuring closer alignment between HP’s global climate change commitment and local needs.
everyone who is affected by this shift in philosophy. More importantly, it requires close monitoring and dialogue on why the company is undertaking this action and how each department will benefit. An internal feedback mechanism is especially helpful for ensuring that the proposed changes are having the desired effect.

Phase 2 – Listen to new voices

Active engagement of external groups is essential for aligning a company’s internal changes with a greater social and environmental agenda. Insights from grassroots-level organizations, such as local government bodies, NGOs, consumer and community groups and other secondary stakeholders, can provide on-the-ground operational know-how and important feedback.

This bottom-up approach to Social Engagement is particularly important in Asia Pacific, given the rising influence of grassroots groups on corporate reputation.

In our experience, conflict with these groups can quickly escalate into significant corporate issues. At the same time, insights at the local level can be a source of competitive advantage. For example, Hewlett-Packard partners with the World Wildlife Fund in China and India to provide technology support for WWF field research on the effects of climate change. The researchers talk to local government and community leaders to understand and document the changes taking place in the natural environment and the effects of those changes on communities. These conversations and observations are then captured through stories written by members of the community, photographs and video, all of which are then uploaded onto the HP-enabled ‘Climate Witness’ website. HP benefits through its broad and deep understanding of local needs for the development of the company’s own business and particularly its global commitment to address climate change.

Outreach to new stakeholder groups, however, must be predicated on trust and credibility. For example, despite significant outreach in the fast food industry on issues such as obesity and healthy living, many people regard fast food companies themselves as part of the problem. This highlights the importance of engaging in meaningful two-way dialogue with all groups, with an emphasis on listening.

The challenge for companies is to formalize and quantify this outreach in order to generate insights that can be of value to the business. This process should be driven by a dedicated CSR division or another division within the company, with the full support of senior executives.

In many instances, the results derived from the outreach process can be surprising. A global survey by McKinsey in May 2007 showed that there is a gap between what senior executives think are the issues that matter to stakeholders and the issues identified by stakeholders themselves. For example, executives rated offshoring (42%), privacy and data security (32%) and the environment (31%) as the three most important issues over the next five years. Consumers, on the other hand, considered environmental issues (47%), pension and retirement benefits (38%) and healthcare and other benefits (31%) to be most important. This gap is even more pronounced at the local grassroots level.

Opening a dialogue with relevant stakeholder groups and, more importantly, sharing the feedback obtained from them allow a company to understand real stakeholder needs. From that understanding can come a specific plan on how the company can address those needs in a way that makes good business sense.

“The company has to be seen as credible based on its own actions.”
When GE launched its “ecomagination” campaign as part of its US$1.5 billion commitment to invest in environmentally-sound technologies, the world took notice. As oil prices and other energy costs continue to escalate and with water scarcity concerns spreading across the region, GE’s initiative is delivering value to investors, customers and society as a whole.
Phase 3 – Converge around ‘big ideas’

In many cases, CSR outreach is focused on the *cause du jour*, either because of a desire to gain media attention or because of a particular vested interest. This is why we so often see corporations moving from issues such as relieving inner city poverty to promoting the rights of indigenous cultures with barely a pause for breath.

This largely ad hoc approach to CSR does not create lasting value for a company. A more effective approach is to focus on issues that are relevant to its industry, the needs of the local community and the interests of internal stakeholders. All CSR activities are then constructed to support these issues. This has two major benefits. First, it creates a credible reputation for the company on issues related to what it does best. Second, it allows the company to make immediate decisions on whether to pursue any of the many hundreds of applications it receives for support.

For example, Edelman client Microsoft operates its corporate citizenship programs and develops its business models for emerging markets on the core platform of ‘Unlimited Potential’. One major issue addressed by Unlimited Potential is human trafficking. According to the United States Agency for International Development (USAID), victims of human trafficking often leave their homes by choice because the trafficker appears to offer them a better alternative to their current situation. Working with NGOs, Microsoft aims to increase levels of education so that people can genuinely improve their lives through the acquisition of information technology skills.

Countries covered by the Unlimited Potential human trafficking program include the Philippines, Cambodia, Thailand and Indonesia, where Microsoft targets at-risk communities. Under this program, Microsoft also hosts local NGO Mirror Foundation’s international video footage on its MSN search website, sponsors and participates in human trafficking conferences, provides software applications to track missing people and develops systems to help law enforcement uncover trafficking networks. All of these activities are related to Microsoft’s core business of information technology.
Phase 4 – Be an advocate

With a relevant issue identified and a position established, the company is ready to become a public advocate. Again, though, it must be emphasized that the company has to be seen as credible based on its own actions.

For example, companies in the agricultural sector sometimes face accusations of raising food prices to devote more space to crops suitable for the production of biodiesel and corn-based ethanol. If an agricultural company promoted the use of bio-diesel to reduce greenhouse emissions, in many cases that would be a defensible and socially relevant stance. However, if that same company were seen to be using arable land in countries where food supply is scarce in order to grow more profitable crops for fuel, its position would be less tenable.

To reinforce its credibility as a public advocate of social issues, a company should endeavor to:

Create reliable sources of information: In November 2007, HSBC in Hong Kong launched the website, HSBC and Climate Partners. On the site, the company provides a wide variety of information about climate change, including definitions, Q&As, tips on how individuals can actively reduce their climate impacts and eco-friendly activities that are happening around the city. In addition, the site provides links to WWF’s carbon calculator, which visitors can use to measure their carbon footprint, and includes third party columns from guest climate change experts, such as WWF and the Hong Kong Observatory.

Enroll the CEO: CEOs to a great degree set the tone for a company’s approach to Social Engagement, but not always in a positive way. For example, in Korea shareholders battled to have SK Corp. Chairman Chey Tae-Won ousted from the board in a high profile accounting scandal. In Japan, Livedoor founder and CEO Takafumi Horie was found guilty of fraud following a high profile trial that saw the company dubbed ‘Japan’s Enron’.

These episodes illustrate the singular ability of leaders to undermine their companies’ reputations and undercut their stated commitment to ethical management and accounting transparency.

On the other hand, greater accessibility and engagement by CEOs in the field of Social Engagement can have a very constructive effect on the reputation of a company. Jack Ma, CEO of Alibaba, maintains an influential and widely-read blog on a variety of issues related to business in China. This platform enables Ma and Alibaba to carry on a dialogue with stakeholders and provides an opportunity to demonstrate leadership on many of the core issues affecting Chinese businesses.

There is a difference between this type of engagement and the CEO reputation-building exercises that were such a staple of corporate communications programs in the 1990s. The capacity of the technology industry to create a new crop of iconic business leaders such as Bill Gates, John Chambers, Jeff Bezos and Steve Jobs in the past focused on their achievements. Increasingly, that attention is being directed toward their ethical philosophies and how these impact their businesses.

In Asia, however, a comparatively small number of Asian CEOs are addressing social responsibility. Given the growing profile of Asian companies both regionally and globally, there remain significant opportunities for Asian CEOs to take a visible stance on Social Engagement issues.

Take leadership on issues: Proactive management of relevant issues is another way in which companies can become advocates. As suggested earlier, any organization whose activities are at variance with its stated commitments to social responsibility risks a backlash from the communities it would like to engage. By proactively taking steps to address the issues it has identified as core to its business, a company can point to concrete achievements while still acknowledging what remains to be done.

“Stakeholder dialogue is the foundation of socially responsible business practices.”
For example, Edelman client The Coca-Cola Company, whose principal raw material is water, announced in Beijing a global commitment to “replace every drop of water it uses.” Water management is both a core component of Coca-Cola’s business and an important social issue in Asia, and China in particular, making this initiative an appropriate one for the company.

Although its commitment is acknowledged as an aspirational goal, Coca-Cola has already begun to take steps in its multi-faceted approach to water management, including water use efficiency, rain water harvesting and water pollution alleviation. In partnership with WWF, it has undertaken water conservation projects in seven key river basins across the world, including the Yangtze and Mekong. In 2006 Coca-Cola launched 13 new community water projects and enhanced an additional 11 projects across 12 countries in Asia Pacific.

By managing issues proactively, a company will inevitably need to measure its performance against pre-defined objectives and engage outside parties. This process feeds back into the first stage of the cycle, ensuring that a given initiative is sustainable in its implementation as well as in its intent. By placing Social Engagement at the heart of the business, a company can effectively and efficiently link its business success with progress in Social Engagement. As a result, it will be able to build and maintain stronger relationships with its core stakeholders.
The Whole World is Watching

Although some companies in Asia Pacific continue to follow a CSR-is-charity model, more and more are starting to recognize the importance of Social Engagement and finding new ways to build competitive advantage.

In recent years there has been a dramatic change in how corporate reputations are managed in Asia Pacific. Given the increasing importance of social accountability as a reputation driver, it is vitally important that companies’ CSR initiatives be in tune with stakeholder expectations.

A growing number of companies are adopting CSR and communications programs that demonstrate this alignment. In Asia Pacific, however, the concept of CSR is still widely misunderstood and, as a result, investments in CSR are often insufficient or misguided, thereby limiting their benefits for businesses and society as a whole.

Many companies in the region continue to view CSR as philanthropy — giving financial resources to the communities in which they operate. Philanthropy obviously continues to benefit society. But this approach to social responsibility does not leverage the core competencies of the business and, more importantly, falls drastically short of what key stakeholders in the region expect of good and responsible companies.

However, while some companies remain firmly rooted in the CSR-is-charity stage, a growing number are beginning to recognize that a more strategic approach is necessary. Some of the initiatives that regional CSR leaders are now implementing include the following:

- Investment in improved environmental and social performance
- Proactive stakeholder engagement on social issues
- Employee communication and engagement in CSR activity
- CSR reporting and communications
- Brand marketing platforms aligned with social causes

As more stories of CSR leadership emerge across the region, companies are beginning to move beyond philanthropy to pursue more far-reaching models of social responsibility. The challenge now is to avoid the temptation of simply implementing generic CSR campaigns as extended marketing activities in isolation from the core functions of the business.

Social Engagement means taking an integrated approach to addressing social issues and aligning them with corporate strategy. By making a comprehensive effort to align the interests of business with the issues of the local community, forward-looking companies can adjust to meet the rapidly-evolving expectations of influential stakeholders in Asia Pacific. More importantly, ‘Socially Engaged’ companies are better able to sustain enduring relationships with stakeholders, identify new sources of competitive advantage and build stronger businesses.


“In this transparent world... ‘how’ you conduct your business matters more than ever, because so many people can now see into what you do and tell so many other people about it, on their own without any editor. But this also creates opportunities. Today ‘what’ you make is quickly copied and sold by everyone. But ‘how’ you engage your customers, ‘how’ you keep your promises, and ‘how’ you collaborate with partners – that’s not so easy to copy, and that is where companies can now really differentiate themselves.”

In this respect, as in so many others, the world is truly watching the Asia-Pacific region.
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